



COMMONWEALTH OF AUSTRALIA

# Official Committee Hansard

## SENATE

SELECT COMMITTEE ON STATE GOVERNMENT FINANCIAL  
MANAGEMENT

**Reference: Commonwealth, state and territory fiscal relations and state and terri-  
tory government financial management**

THURSDAY, 27 MARCH 2008

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**SENATE SELECT COMMITTEE ON  
STATE GOVERNMENT FINANCIAL MANAGEMENT**

**Thursday, 27 March 2008**

**Members:** Senator Ian Macdonald (*Chair*), Senators Bushby, Chapman, Forshaw and Polley

**Participating members:** Senators Abetz, Adams, Barnett, Bernardi, Birmingham, Bishop, Boswell, Brandis, Bob Brown, Carol Brown, Campbell, Colbeck, Coonan, Cormann, Crossin, Eggleston, Ellison, Fielding, Fieravanti-Wells, Fifield, Fisher, Heffernan, Hogg, Hurley, Hutchins, Johnston, Joyce, Kemp, Kirk, Lightfoot, Lundy, Sandy Macdonald, McEwen, McGauran, McLucas, Marshall, Mason, Milne, Moore, Murray, Nash, Nettle, O'Brien, Parry, Patterson, Payne, Ray, Ronaldson, Scullion, Siewert, Stephens, Sterle, Troeth, Trood, Watson, Webber and Wortley

**Senators in attendance:** Senators Bushby, Chapman, Fielding, Forshaw, Kirk, Ian Macdonald

**Terms of reference for the inquiry:**

To inquire into and report on:

- a. Commonwealth funding to the states and territories—historic, current and projected;
- b. the cash and fiscal budgetary positions of state and territory governments—historic, current and projected;
- c. the level of debt of state/territory government businesses and utilities—historic, current and projected;
- d. the level of borrowing by state/territory governments—historic, current and projected;
- e. an examination of state/territory net government debt and its projected level—historic, current and projected;
- f. the reasons for any government debt including an analysis of the level and efficiency of revenue and spending;
- g. the level of investment in infrastructure and state-owned utilities by state and territory governments;
- h. the effect of dividends paid by state-owned utilities on their ability to invest;
- i. present and future ownership structures of current and former state-owned utilities and the impact of ownership on investment capacity; and
- j. the effect of investment by state-owned utilities on Australia's capacity constraints.

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**Committee met at 10.20 am****GILLAM, Ms Adrienne, Chief Executive Officer, Institute of Public Administration Australia**

**CHAIR (Senator Ian Macdonald)**—Good afternoon. This is the first public hearing of the Senate Select Committee on State Government Financial Management. The committee was established by the Senate on 14 February to inquire into the fiscal relationships between the Commonwealth and the states and territories as well as state and territory financial management. The committee has so far received some 21 submissions to the inquiry. Most of those have been authorised for publication and are available on the committee's website. The remainder will be published in coming days. We have decided as a committee to extend the time for receiving submissions to the end of April, so I am anticipating that there will be more submissions. There will also be an opportunity for those who have put in submissions to elaborate on them.

These proceedings today are public proceedings, although the committee may agree to a request to have evidence heard in camera and may determine that certain evidence should be heard in camera. I do not think that that is likely to happen in this inquiry, but you never know. I remind witnesses that in giving evidence to the committee they are protected by parliamentary privilege. It is unlawful for anyone to threaten or disadvantage a witness on account of the evidence given at a committee hearing and that such action may be treated by the Senate as a contempt. It is also a contempt to give false or misleading evidence to a committee. If a witness objects to answering questions, the witness should state the ground upon which the objection is taken and the committee will determine whether or not they will insist on the answer, having regard to the ground which is claimed. If the committee determines to insist on an answer a witness may request that the answer be given in camera.

I welcome Adrienne Gillam representing the Institute of Public Administration Australia. Adrienne, the information I have just read out is very general information that is read at the beginning of every hearing. I am not suggesting that we will be grilling you to such an extent that you will be a quivering mess or that you will require some assistance from these rules. Thank you very much for making yourself available to speak to the committee and for putting in the submission. I appreciate that the time allowed for you to put in the submission was pretty limited. Would you like to say anything by way of an opening statement, perhaps elaborating on what is in your submission?

**Ms Gillam**—I am the chief executive officer of the Institute of Public Administration Australia and I am their national chief executive officer. We are a federalised structure, a little like we are looking at today, and we have divisions in each of the states and territories. We have put our submission together in a fairly broad contextual kind of way based on the academic research that we undertake, the journal that we publish our research in, practitioners' views and the views of our national council, headed up by our national President Andrew Podger. We have put a fairly short submission together based on the work that IPA has done until now.

**CHAIR**—All senators will be invited to ask some questions of you, but I will start off. One of your specific reform suggestions is for the 90 or more specific purpose payment schemes totalling some \$23 billion from the Commonwealth to the states to be rationalised to standardise

their terms and conditions and better focus on outcomes. Can you elaborate on that? Do you have more defined suggestions or is that just a broad one?

**Ms Gillam**—They are broad suggestions that came out of a roundtable event that was held in May last year. There is a forthcoming roundtable discussing these very issues in October in Tenterfield, which is going to coincide with the anniversary of Sir Henry Parkes 1889 speech in that area. That particular point was one of a series of recommendations that came out of the first roundtable. As to the context in which that was made, I cannot give you more detail on who made it and the basis on which it was made, but I can say that that specific point is to be taken up in the October roundtable as it was tabled in May last year as an area of reform that could or should be looked at. Those suggestions were put forward under Chatham House rules from academics, practitioners and so on. So I cannot attribute the comment or give you very much more, I am sorry. The nature of our submission is sort of broad contextual—this is what IPAA has been looking at; these are the issues of interest to academics and practitioners—and we also have the private sector involved. I would expect that particular point to be looked at in more detail in the Tenterfield roundtable. Unfortunately, I do not have more background on which particular direction they wanted to take that. It was really a point about rationalising and making more sensible arrangements regarding the plethora of grants that existed. That is my understanding of how that comment came out.

**CHAIR**—I understand from talking to you privately earlier that your background is with COAG or one of the state public services. Is that correct?

**Ms Gillam**—I am still a serving senior executive in the Australian Public Service with the Department of Families, Housing, Community Services and Indigenous Affairs, but I am on a secondment to IPAA for a couple of years to be their first national chief executive officer. We have never had a national resource. So for the first time IPAA is now able to look at these more national issues and run seminars, events and forums to flesh out issues and try to make a linkage between the work that academics at ANZSOG, the ANU and internationally—the New Zealanders, Canadians and Americans in our equivalent organisations—are doing and try to bring that into the practitioner space. My background is as a practitioner.

We are trying to bring these debates and discussions to cross those two fields to make them more practically oriented. This will help practitioners have that academic theoretical understanding of an issue like federal arrangements while at the same time make what academics are doing more relevant and practical to the people who are working in COAG. Much of the commentary, for example, in our journal, the *Australian Journal of Public Administration*, has concentrated quite heavily on issues around COAG that are now of interest to practitioners to look at the theoretical analysis.

With the work that I did, particularly in Indigenous affairs in South Australia, working under the Council of Australian Governments Indigenous interventions, we worked very closely with the Commonwealth and the state on issues around fiscal arrangements and funding arrangements, and we achieved very good outcomes here in South Australia under those arrangements. That is my personal experience with working under COAG arrangements. We had a lead agency, the Department of Health and Ageing, but FaCSIA managed a large number of those programs and we had the coordinating role under the Office of Indigenous Policy. We worked very closely across governments and across agencies. It was quite a challenge but we

were pretty happy with the level of collaboration and cooperation that we achieved in this state, such that we did not have to do the kinds of intensive interventions that we have had to look at in other states and territories. An example is the statistics on petrol sniffing in South Australia. I do not think you can measure anything as successful in government as the decline in petrol sniffing in South Australia. It is really quite negligible now. Those sorts of performance measures are really good to see coming out of those kinds of arrangements, and are very tangible measures. That is a bit of background on my life previous to IPAA.

**CHAIR**—For whatever part you had in that decline, congratulations.

**Ms Gillam**—It is a good example of COAG at work.

**CHAIR**—I am conscious of your position and appreciate that you cannot, without the appropriate processes, speak for the association. I just wonder whether you have a view on whether specific purpose payments are still essential or whether we should be looking at some other form of financial arrangements between the Commonwealth and the states. For example, the GST was a radical step in Commonwealth-state financial relations. I had not realised that the number of specific purpose payments was so high. Is there a better way to fund the things that need to be done, and should they be funded at the direction of the central government or are the states really subject to the conditions the central government imposes on the specific purpose payments?

**Ms Gillam**—I am by no means expert in that field, but the academic work, the research and the findings that IPAA has suggested in these suggested reforms point to the fact that it needs to be looked at and better aligned to the things that are best funded nationally, to the big policy objectives being centralised and to there being a more sensible arrangement between the two and not so much confusion. That is a very general overstatement, but the positions that have come forward through that roundtable were that there would be better and improved ways of arranging these.

I have not got specific details on how they propose that. That is very much a topic of the October roundtable. It is now post-election and they will be looking at the commitments that were made pre-election, how they will impact and what kinds of practical steps might be looked at. That is about as far as they went with that, beyond suggesting more sensible, rational arrangements and that some things should naturally be centralised—climate change, water and those sorts of big items.

**CHAIR**—That leads me to my next and final question before I pass to Senator Kirk and others at the table. In your submission another of your reform suggestions is to provide the states with a guaranteed revenue share to fund their responsibilities, and you acknowledge that GST went part of the way. Does IPAA have a view on how that should be done?

**Ms Gillam**—I think they had a very strong view on the risks and dangers of there not being that guaranteed revenue. Sue Vardon's Garran Oration, for example, talks about how it is opportunistic or a one-off, or 'the Commonwealth will do this, therefore the states have to do that.' Their position was that it should be a more guaranteed or certain arrangement rather than those sorts of ad hoc arrangements. I can speak from experience, and the view was that it should be more ordered and certain. I think all of the papers that we have in our journal relating to

federal arrangements make the point that there are improvements and possible reforms that would get away from those sorts of things. They are also subject to blame or poor relationships and then things do not happen effectively.

**CHAIR**—With GST, it is a fixed allocation of a growth tax to the states, which is guaranteed for the extent of the growth of the economy, I guess. How else can you guarantee a payment, apart from agreement between the Commonwealth and the states—which could always be broken with changing fortunes?

**Ms Gillam**—I guess one way that they have talked about it is through bilateral agreements. They provide that kind of certainty and look towards those more ordered arrangements in that way so that things are not so subject to unpredictable events. Yes, that was one way, but something they will be looking at more in October is how that might be better arranged.

**CHAIR**—We will follow that with a lot of interest.

**Senator KIRK**—Thank you very much for your submission, Ms Gillam. I am just interested to see whether or not you can flesh out a little bit more for me some of the principles of the IPAA and also some of your specific reform suggestions. I notice that the first point you mention is the need for:

Clarification of future roles and responsibilities in priority areas including health, education, water and business regulation  
...

In fact, reading through most of these points, given my background as a constitutional lawyer, it immediately comes to my mind: exactly how do you propose this be brought about? Do you see the need for any sort of constitutional reform in order to clarify these things or do you just see clarification of these various things and the recognition of the authority and the like of the states and the Commonwealth to be done just by means of an administrative process? How exactly would you see this coming about?

**Ms Gillam**—I think they range from your latter suggestion right through to the constitutional change. The views that have been put forward so far are on the table, but IPAA has not formed a position on where it stands on it. Up to this point, it has been a debate, discussion and information gathering exercise saying, 'The suggestions for reform range from here to here.' But the principle is that we want some clarity on this and that ambiguity is not helpful.

**Senator KIRK**—Sure. Is that something that is going to be discussed at your October 2008 roundtable?

**Ms Gillam**—Yes. I have the program, which is now getting towards its final stages. I will leave it with the committee. It could be quite exciting.

**Senator KIRK**—It says here that it is attached, but it is not attached to my papers. If you can provide that to us, that would be helpful.

**Ms Gillam**—Yes. I have that here.

**Senator KIRK**—I also wondered as I was reading through where IPAA sees the role of local government fitting in to this. One of the points in the suggested reforms is:

COAG should encourage States/Territories to devolve and responsibilities within the States and Territories themselves.

That, to me, suggests a significant role for local government. Is that something that IPAA has considered as well?

**Ms Gillam**—I am interested in that one because I think that it may be on shifting ground in that there seemed to be very strong views on it at the first roundtable. I was not present, so I am going by the summary of proceedings by John Wanna which, under Chatham House rules, is a fairly broad record of that. The view was that things should be pushed down so that they are closer to delivery level. But that topic, again, I think will be really fleshed out in October. There is a particular session that is aimed at saying, ‘How should the constitutional recognition of local government be pursued and what can it deliver? What is the future for regional collaboration and capacity building and how can Australian federalism be made more responsive at these levels?’ It is really early days. At the first roundtable, all the issues were thrown on the table. For example, ‘What is the role of local government? How far should it be pushed down? What is the role of shared responsibility agreements?’ Those were the sorts of things. There is not a very developed case at this point from IPAA’s position.

**Senator KIRK**—Is there a record of those roundtable discussions? Did you mention John Wanna?

**Ms Gillam**—Yes. It is in our journal. I will leave the journal with the committee as well. The paper that was commissioned for the roundtable by Hollander and Patapan is in here and so are the summaries from John Wanna of ANU, who is also the editor of our journal. There is also an article by Alan Fenna in here on federalism. Our latest issue has something on federalism as well. It is an issue which is just starting now with the resources nationally to really make some headway in the discussion. The roundtable debate format has turned out to be a very useful interaction between the academics and petitioners. We often have ministers or past ministers as advisers, so we get a really broad range. Hence, my response today is that there are these views but that IPAA’s position is not particularly developed because the debate is ongoing.

**Senator KIRK**—Following on from that point, you made a number of suggestions about greater support for intergovernmental relations, including through publicly available research and evaluation. You also mentioned the possibility of giving COAG a joint Commonwealth-state permanent secretariat. As I read through those things I imagined some kind of body that would exist to provide this sort of support and perhaps also to do the research which is required. Is that the kind of idea that you are developing?

**Ms Gillam**—That was an idea that came out of the first roundtable. There were also views put forward that it could be something like the Productivity Commission. The general view put forward was that there could be some more resourcing for that, and one of those ideas was the secretariat behind COAG.

**Senator CHAPMAN**—Is the institute headquarters in Adelaide?

**Ms Gillam**—Interestingly, we do not really have a headquarters as such. I am based in Adelaide because that is where I was previously. Because we are a national entity our secretariat is in Brisbane, I am in Adelaide and the president is in Canberra.

**Senator CHAPMAN**—In the research and the issues that you pursue, do you focus equally on state and Commonwealth public administration, or is there more of a bias towards the Commonwealth or the states?

**Ms Gillam**—That is an interesting question because in the IPAA organisation itself the divisions tend to have a majority of state and territory jurisdiction members. Hence, their activities tend to be very state oriented, looking at public sector performance commissions and issues of that nature. They are very state focused and have a small number of federal public sector members. Nationally, our membership is only our federated structure of the eight divisions, so you would have to say that the institute does have a strong focus on state and territory jurisdictions, yet our academic commission work often looks at national issues which take a federal focus. So it is an interesting body in that it covers all three sectors but, because local government is so effectively covered by local government associations and local government managers associations and there is a lot of work in that space, we tend to focus on state and territory jurisdictions with that federal interaction and linkage. It is an interesting organisation in that much of its activities are focused on the state and territory level.

**Senator CHAPMAN**—Have you done much work on what I call, for want of a better term, the efficient use of revenue by state governments?

**Ms Gillam**—Not at all, no. The activities at divisional level tend to be membership focused or participation focused and not so much research focused. Our state and territory research would be most active in the Queensland division.

**Senator CHAPMAN**—Does the institute have a view on private-public partnerships as a means of delivering infrastructure or other services?

**Ms Gillam**—It is an area in which the institute encourages a lot of debate and focuses on but has not formed a position on. We certainly look at shared services—those public-private arrangements—in each of the jurisdictions, and we look internationally at those in New Zealand. We look at best practices and case studies. We do look at them but there is not an IPAA position on them.

**Senator CHAPMAN**—This might be a question that relates as much to your own role as to the institute's. Has the institute—or have you, in your role in community service—examined the extent to which states have become dependent on revenue from gambling? Do you have any views on the social consequences of that and perhaps the long-term revenue consequences?

**Ms Gillam**—No, I have not at all.

**CHAIR**—Is it something that would concern you in your other job? Do you see the impacts of gambling on—

**Ms Gillam**—I certainly understand the impact of gambling firsthand, but, being at the service delivery end in a state office, I tend not to analyse the revenue source and arrangements. Working against perverse incentives was a very big part of the interventions in this state. You cannot leave one end without considering the other. With petrol sniffing, for example, the supply was as important as the positive interventions.

**Senator CHAPMAN**—I note that the roundtable you referred to was provided with the Commonwealth Grants Commission paper *Trends in Commonwealth-state financial relations: a Grants Commission perspective*. Has the institute done any work on the way in which the Grants Commission works—the way in which it determines the relativities between the states and the appropriate level of the grants that go to each state?

**Ms Gillam**—No, we have not done any additional work on that.

**Senator CHAPMAN**—Have you done any work on the so-called vertical fiscal imbalance?

**Ms Gillam**—No.

**Senator CHAPMAN**—What about debt financing?

**Ms Gillam**—No. When we put forward our submission, we said that our expertise and specialisation has been in broad-level debate and discussion. We have not looked specifically at fiscal arrangements.

**CHAIR**—Will IPAA be doing that in future?

**Ms Gillam**—It would be a resourcing issue for us. I do not think we would get to that level of expertise. Certainly, we would do so when we are asked to contribute, or when we commission work, but that would not be an area that we would be looking at.

**Senator BUSHBY**—Some of the questions I was going to ask have already been asked, but I am interested in your thoughts on a number of the things that Senator Chapman has raised. Are the members of IPAA people who are already working in the public service?

**Ms Gillam**—Yes. They come from all three tiers of the public sector—local government, state, territory and Commonwealth public servants can be members, as can people who have an interest in public administration generally. We have academic membership and we also have some corporate membership.

**Senator BUSHBY**—What is the break-up between federal, state and local government and outside membership?

**Ms Gillam**—The highest number of members by far are from state and territory governments, because they belong to individual institutes. They would make up 80 per cent of our membership. We have not done an analysis, but it would be that high.

**Senator BUSHBY**—You mentioned that, due to lack of resourcing, you have not looked into some of the other issues that have been raised, or that you would not have the ability to do so.

But, in general, the aim of the association is to promote excellence in the provision of public services, so presumably some of those areas would be of interest to your membership.

**Ms Gillam**—Absolutely. We gather intelligence information, academic work and items of relevance. At the same time we have to be very careful and very strategic in prioritising what IPAA can do nationally. We have a very broad range of interests, but we only have the ability and resourcing to be able to focus on certain issues. This year it has been federalism, with the roundtable, and we have also looked at the independence, responsiveness and politicisation of the public service. Those are the two priority areas we have been able to look at this year—and we run a national conference that looks at broad range of issues. But, as to getting to that level of detailed work, at this point we would not have the capacity to do that.

**Senator BUSHBY**—Although it would obviously be of interest to you.

**Ms Gillam**—Absolutely, and that is what we bring to the fore for members. We try to value add to the work that is happening in equivalent institutes in the UK and with the Brown government. We try to bring all sorts of best practice, innovations and case studies to members.

**Senator BUSHBY**—What about accountability of government, particularly in terms of its fiscal activities? Is that something that has been canvassed or considered?

**Ms Gillam**—We have made available to our members papers that have been done on financial management, budgeting, performance management and accountability. The New Zealand equivalent of IPAA recently ran a conference looking at accountability issues of that nature. Whilst we have not done that work in Australia, we have brought that information and the work that has been done by academics to the attention of Australian members. So, yes, we try and extend our capacity by building on work that we know has been done elsewhere.

**Senator BUSHBY**—A lot of things, such as issues of accountability of government, would have crossed jurisdictions without too much of a problem.

**Ms Gillam**—We recently had Paul Thomas, from Canada, who spoke on accountability at length at the roundtable on public service independence in Melbourne on 13 March. He did quite a good paper on accountability and we make that available to our members.

**Senator BUSHBY**—Just as an aside, what do you think about the outcomes from yesterday's COAG meeting? I am only aware of what I have read in the paper.

**Ms Gillam**—I am only aware of what is in the paper as well.

**Senator BUSHBY**—Our government members here may have more knowledge—I don't know. In general, what are your thoughts on the outcomes from that as it applies to what we are talking about?

**Ms Gillam**—I think it is interesting because, having had the roundtable on federal arrangements, they can now see some of the things playing out—the sort of cooperation that people have commented on and different eras of federalism. I think IPAA will now be very carefully watching to see which way the discussion is going on the issues that were identified

last May. It will be very interesting to hold that discussion in October with meetings such as yesterday's having been held and with the outcomes there to be analysed more closely.

**Senator BUSHBY**—They can look at the reality of what has actually come out of it.

**Ms Gillam**—Yes. I think it will be from that perspective.

**Senator BUSHBY**—You were talking about the roundtable. Does the roundtable include any representation from business or community groups?

**Ms Gillam**—Yes. Roundtables are invite only. We work very hard to get a balance. We try to get industry—the Business Council of Australia. In the last one we looked at the World Wildlife Fund because of the environmental aspects. We try to have a balance so that it is not dominated by academics yet it has sufficient high-level academics.

**Senator BUSHBY**—So there is some practical knowledge and experience in there as well.

**Ms Gillam**—We try to get senior people—heads of departments, secretaries, ministerial advisers and current or past politicians. We had John Thwaites at the one held the week before last in Melbourne. We aim for a balance of participation because the roundtables are invite only—it is not just whoever might like to come along and talk about the issue. At the same time, we open it up to observers. Whilst at the table we have a very carefully balanced team discussing the issue at hand, we also have an observer circle. We then try to get young professionals, people who we see as future leaders in the public sector, exposed to these kinds of debates. So we had a very strong contingent of federal and state public servants who were in the 30-something age group as observers at the last one. We do that so it is not just the usual suspects having the debate; it is opened up to some fresh and new thinking. IPAA has a very strong role in and a strong view on the future public sector and the future public service.

**Senator BUSHBY**—Is the roundtable model—obviously you seem quite impressed with how it is working at this point—something you will use for future issues and examining other aspects of public administration?

**Ms Gillam**—We think it is a really successful model which can be further developed. In each one that we have proposed, we have seen that people were very excited by the model, the potential for very frank and fearless discussion to be held and the wide range of views that can come to a table and therefore be brought to a central point and more closely analysed. The first roundtable, in May last year, was a very tentative first step. I think there were 30 participants—it was prior to my appointment. At this one we had 40 in the inner circle and 30 in the outer observer circle. For the next one, at Tenterfield, we have partnered with Griffith University and that will be about the same size. We have proposed one in November to look at health, which will be very much of interest to this committee, given its terms of reference, because it will be drilling down to health arrangements and issues. There is enormous interest in doing that, not only from the public sector but also from the private sector. We have two major sponsors, Ernst & Young and Minter Ellison, on board. We can see this model going ahead and being very strongly supported. On the outcomes from the last roundtable, people have been very complimentary about the level of discussion and the depth of analysis that was undertaken.

An important part of roundtables is the follow-up—the publications, getting articles in the journal. The journal is international. It has a high rate of access internationally and in Australia. The benefit of roundtables is not only what happens there but what subsequently happens and how much it gets out into that domain. We want to make sure it gets very widely out not only to members but also to heads of agencies. We have written to all the ministers responsible for public sectors in each of the state and territory jurisdictions. We let them know the outcomes of the roundtable. So much of it is what becomes of that information more than the actual gathering of it, as important as that is.

**CHAIR**—I would love to talk to you one day about your research in the politicisation of the public service, but not today—not this inquiry—some other day perhaps. Senator Fielding?

**Senator FIELDING**—Thank you, Chair, and thank you, Ms Gillam for your submission. You have said that COAG's prospective agenda should include longer term and more strategic matters. Can you elaborate a bit further on that? I think COAG is something that could be extremely powerful, but I am interested in your thoughts.

**Ms Gillam**—This was early thinking of May last year, and in some ways developments have been consistent with their view that was expressed in May that that is a very powerful mechanism for addressing big wicked national problems. The papers that were submitted in May and the articles that have been published since seemed to be backing that mechanism. I think that was the point that they were making there.

**Senator FIELDING**—Were there any other specific things? You were saying it should cover a longer term. Was there anything specific you were thinking?

**Ms Gillam**—No, but the COAG arrangements are very firmly on the agenda at the October federalism conference. How are new initiatives for intergovernmental collaboration unfolding in Australia? Are the new strategies for COAG showing results? How is it working? Is enough being done to institutionalise collaboration in the long-term and, if not, what could be done? So it is an issue that they were going to focus on.

**Senator FIELDING**—Just to follow up, there was an attachment. Can you table that for the committee?

**Ms Gillam**—Yes.

**Senator FIELDING**—You made a point in your submission about duplicate administration structures that have arisen between the Commonwealth and state and territory jurisdictions. How significant do you think that is? Is that something where you see significant gains being made? There is always the hoary chestnut of people wanting to either take on more or let go of some bits and pieces, but I think that is what you are getting at there.

**Ms Gillam**—Yes, particularly in performance measurement and accountability, not having an excessive administrative or otherwise burden or duplication. It has been commented throughout that there are duplicate structures and a lot of overlap. We hear this a lot at the service delivery end, so I guess it was that comment pushing back up.

**Senator FIELDING**—The other point you made was that COAG should encourage states and territories to devolve and decentralise responsibilities within the states and territories themselves. Do you envisage that local councils would be included a lot more in those sorts of discussions? That leads on to the next question: considering the amount of service delivery that local government councils provide and some of the infrastructure issues that people are talking about—local councils play a key role—should there be local government representatives at COAG, for example, the Local Government Association? I would like your thoughts on that issue.

**Ms Gillam**—That view was expressed at the first roundtable. I would be really interested to see how that comes through, because it is a focus of the October one. It was very strongly expressed in those papers, and I will table this volume of *AJPA*, because the view was strongly expressed that it should go right down to that local government level and that they do have a significant role to play.

**Senator FIELDING**—I have a strong view that they should be around the table purely because of the amount of service delivery they provide, and then there is the old problem—I will not use the term cost shifting, because that is a negative term—of the issues that local councils face and the revenue base they can raise. I know this is to do with state financial management relations, but if you are really going to have a fair dinkum crack at COAG you do need to include local council government.

**Ms Gillam**—It is a view that was strongly expressed at the first roundtable and it will be taken up again in October. It comes through as a common theme in all of the papers I have read that were commissioned as background.

**CHAIR**—I think local government do have a seat at the table. The question would be just how much notice is taken of them.

**Ms Gillam**—Part of the issue they have here is what role can devolution play, how should the constitutional recognition of local government be pursued? There was a very strong focus on that level. We have strong local government membership on many of our divisional councils. We have the CEOs of many local councils so that view does come through the IPAA membership.

**CHAIR**—That is an interesting question because most of the ministerial councils have a local government representative, but my experience was that they were just an appendage that you would look to if there was a pause in the proceedings—which is not the way it should be.

**Senator FORSHAW**—All of the issues that I wanted to raise have been covered, but following up this reference to local government: are there differences in the range of services that local councils provide within South Australia? One of the things you find in local government is that it varies from state to state as to what they do; it also varies within states. In my state of New South Wales, regional councils will often provide a range of services that are not provided by city councils because they are already provided through a state government mechanism. What is the position in South Australia with local government? Is there a consistency of services? Or do you find that in some areas they are doing things that the state or the private sector might do in other areas?

**Ms Gillam**—In my role with IPAA, I am not qualified to comment. In my previous role with FaCSIA, certainly there is diversity, and it was most noticeable in Indigenous Affairs because local government delivers a different range of services in the Northern Territory, for example, compared to South Australia, and similarly other state and territory governments. I am not qualified to say from my IPAA position—

**Senator FORSHAW**—That is fine. We have a local government association representative later on, but when you go into the issue of state government financial management in the broad, you do find that there are these substantial differences as to what services may be provided from one region or one council to another.

**Senator FIELDING**—I noticed on page 2 of your submission that there were a couple of states missing from your comment. Was that an oversight? I notice that New South Wales and Western Australia are missing from the comments.

**Ms Gillam**—No, they have not responded and we will be following that up with them. We looked at the responses that we received at our last national council meeting in March and noted that we had not had responses from two large jurisdictions and that we would follow that up. We will also be seeking the permission of the jurisdictions who have responded to put those responses on our website. They were quite positive and interesting responses, but we have to get the authors' permission.

**Senator FIELDING**—What was it they were responding to again, just to help us clarify that?

**Ms Gillam**—We wrote to them with something very similar to what is in your submission here today, that we had had a roundtable and these were the sorts of things that came out. It was a letter covering the two issues that Senator Bushby was referring to—political and public service independence. We were highlighting to ministers that we had covered these two topics and these were the outcomes and asking what was their response or position on these issues. We received responses from all of these jurisdictions, but not the ones you have noted are missing.

**Senator FIELDING**—So what have New South Wales and Western Australia said? They just have not got around to it?

**Ms Gillam**—We have not had a response at all. We had acknowledgement—

**Senator FIELDING**—When was it sent to them?

**Ms Gillam**—Correspondence from the national president of IPAA saying, 'We've had these events and these are the sorts of outcomes—

**Senator FIELDING**—When was that roughly?

**Ms Gillam**—It was in about December.

**Senator FIELDING**—December last year?

**Ms Gillam**—Yes, December last year. So we had acknowledgement of correspondence received but not a response as such. We had very detailed responses from Queensland and South Australia. Some of them were very detailed and very useful, and that is why we would like to make them available to our members.

**Senator FIELDING**—You may want to let the committee know whether or not they do respond between now and when the inquiry finishes. It would be good to know.

**Ms Gillam**—Okay. My national council directed me to follow up with those two jurisdictions to see what had happened there.

**Senator FORSHAW**—So there is no response from WA and New South Wales; what about the ACT? Or do they not fit into the—

**Ms Gillam**—I think they provided a brief response, from memory—although they are not noted, so perhaps they did not. I will have to check.

**Senator FORSHAW**—Perhaps they did not see it as an issue. Far be it for me to—

**Ms Gillam**—I note they are not on the list, and we did write to every state and territory.

**Senator FORSHAW**—Maybe you should have sent it to the National Capital Authority instead!

**CHAIR**—Thank you very much, Ms Gillam, for your time and for sharing your wisdom with us. We very much appreciate that. Our committee will have finished its work by the time of your roundtable, but as individual senators I am sure we will all watch with interest to see what comes out of that. Thank you very much for coming along.

**Ms Gillam**—Thank you.

[11.06 am]

**CHAPMAN, Ms Vickie, Deputy Leader of the Opposition, Shadow Minister for Health, Housing, Families and Communities, Population, and the City of Adelaide, South Australian Parliament**

**Ms Chapman**—Good morning. Welcome to South Australia.

**CHAIR**—Thank you very much. Thanks very much for coming along. We appreciate you are particularly busy and we are grateful to you for making yourself available to talk to the state opposition's submission. We are also conscious that you are on a fairly restricted timetable today, so we will try to keep our questions short and sharp. Would you like to make an opening statement?

**Ms Chapman**—I would, Chair, thank you. Firstly, I thank the committee for the opportunity for South Australia and some of its representatives to make a submission. I note that you will have received a letter from Martin Hamilton-Smith, Leader of the Opposition in South Australia, dated 25 March. In that letter was a document entitled 'Debt disappointment and delay', which is essentially the response to the 2007-08 budget at a glance for the state budget, which is now about \$13 billion, as you have probably already heard. The second document is a response to the midyear budget review, which provides an update based on the best financial information we have. Suffice to say that there are both state and national investigations and reports on the financial position of South Australia and indeed other states, but I will concentrate briefly on South Australia, of course.

The matters that I wish to raise, which are of a more contemporary nature, are probably outlined in the letter from Martin—and I record his apologies for today; he is in the APY Lands, which is our Aboriginal community, for a couple of days before parliament resumes next week. We as a parliament are going to be asked to deal with the WorkCover legislation in this state. WorkCover is rapidly approaching \$1 billion in unfunded liabilities and about \$450 million in self-insured unfunded liabilities for public servants which during this government have blown out from about \$64 million and about \$200 million respectively. So they are major concerns with regard to other off-balance-sheet liabilities—not entirely off balance sheet; if you dig deep enough in budgets, you find some of these figures—and there are various structures through which accountability goes back to the parliament. They are symptoms of the problem that we have in South Australia and what we will have to deal with in a legislative sense and probably at a much deeper level in a managerial sense. There is a brief reference to public-private partnerships and our position on those. I note that there have been some inquiries by this committee into that and I am happy to answer any questions you have.

We have outlined the concern that we have in that essentially there has been an extraordinary rise in the amount of revenue in this state in the last five or six years—which is the period which we have looked at in the operation of the government—but there has been a corresponding extraordinary rise in expenditure. Essentially, this documentation outlines the case that the current government have spent all that they have earned—and they have earned a lot of money from different sources. The other dangerous thing that has occurred is that, whilst we have had

this massive increase in revenue and the massive increase in expenditure and have spent all the money, there has not been an allocation for capital works or infrastructure, and this is a major concern we have outlined.

We have got the debt disappointment and the delay. In relation to the delay, that fundamentally sets out the case that whilst there have been major projects announced—in this case, in infrastructure in prisons, in schools and particularly in hospitals, and more recently in water infrastructure—they are all to happen in 10 years time. There is a major concern about the erosion and decay of the infrastructure, and the inadequacy that flows from that, in that intervening 10 years—assuming they are on time, on budget and all those other things that all administrations have to deal with.

On the capital works and infrastructure aspect, the thing I want to add is this: one of the things that has come to my attention—and I admit I have only been in the parliament for six years—is that there has been an ever-creeping increase in the incidence of programs being added into the capital works list. Instead of seeing \$10 million to build a bridge, we also see such and such a program to refit or replace, and the money allocated to that program is not being spent on the bridge. What concerns me about that is that we have an erosion of the actual amount of money that is being spent on what we call infrastructure, which is the building of the major structures and the equipment that goes with them—in other words, the CFS house plus the trucks that go in it. But we do not expect the pencil replacement to show up in the capital works list.

I brought along the last Capital Investment Statement from the state budget last year, which is a summary of all the departments. I would like you, if you have the opportunity, to take the time to have a look at it. Let me give you the sort of example that I see here. In the health budget, which is largely for rebuilding hospitals and so on—as you would expect; a new wing here and so forth—we have a hot water service in a country hospital, at \$1½ million, which is in the capital works list. So we are clogging up the list with things that should actually be allocated elsewhere. To me, it creates an artificial picture.

When you go over to have a look at the Department of Families and Communities, which accounts for most of our welfare provision in South Australia, you see another example. I should say that apart from being Deputy Leader of the Opposition, or Acting Leader at the moment—it is nice to have that on the record—

**CHAIR**—Congratulations!

**Ms Chapman**—I cover health, housing and various other portfolios. I cover about 60 per cent of the budget. When it comes to the service delivery, these things are very important to what we spend the money on—and I want to come to the efficiency of that in a moment. But when you have a look at Families and Communities you will see that millions and millions of dollars in this year's budget are being spent on relocation of headquarters and refitting—you know, the new carpets and lights in the administration offices. Some of them will have corresponding cost savings—minor as they may be—but millions and millions of dollars for those sorts of things are clogging up the capital works list. I have scribbled over a bit of my copy so I am happy to get you a clean copy. The budget records are also there.

**CHAIR**—Thank you for that.

**Ms Chapman**—The second thing is that the big projects, of course, will not see the light of day. Senator Chapman and I will probably be dead before we see them—Senator Kirk is much younger, so she will probably last to see them. This is a concern, because the likelihood of them even starting to be in the completion stage, let alone operational—to fill up with prisoners, schoolchildren or patients respectively—is a long way ahead. Water projects, which I will mention later, could be either hindered or helped, depending on which way you interpret yesterday's decision. Also of concern is that in the meantime we have very little allocation for the provision and maintenance of infrastructure: the current prisons; the current schools, which are at a fair level of decay; and the current hospitals. They are two aspects I would like you to take into account.

I will just mention water as an example in this area. The government have had six years in office. For most of that we have had large portions of South Australia in drought. Some of South Australia has escaped but most of it has been under severe pressure. We are, of course, at the end of the line for the River Murray, which has been our major resource here. An extra allocation was on the table and was to start to be carved up possibly in three years time, after yesterday's COAG announcement. What we are going to do in those three years, I do not know. I think that the southern lakes area of South Australia will perish in that time. It has already lost a major amount of stock. Its major wood tree, orchard facilities—such that they are—and vines are in a very damaged state, probably irreparable. Crops simply have not been grown. Apart from a small Aboriginal community, which is having water delivered to it for free—which you would expect, because they do not have any capacity to provide for themselves—people in the community, to have drinking water and to provide for their basic sustenance, are being asked to share the cost of a pipeline to bring down emergency water to them. It is inequitable, and there are other aspects to it that I am very concerned about.

What has happened here in six years is this: we have had a River Murray levy, which people have actually been prepared to pay. Even in parts of Kangaroo Island, where I come from, where they do not even use River Murray water, people were committed to helping it. Now we find that most of it has not even been spent. Obviously, like most of the country, we have had the sprinklers turned off in our major cities and towns. We have had just the beginning of a pilot program for a desal plant. It is not that the opposition think that desal is the only answer for water in South Australia, but because we have been so heavily reliant on the Murray we need to create something as a long-term option. Obviously the government now agree desalination is important, but it has taken them years to come to this, and we are only now starting to build the \$10 million pilot program, which of course is required for assessment of the marine environment et cetera. We have all of that happening.

We have a major problem in the country, where the mental health of our rural community is under pressure. Back here in Adelaide we have SA Water, which is the corporation that is the major provider in South Australia—it subcontracts out the plumbing and delivery to United Water and so on in other arrangements—and the major regulator in South Australia, a corporation that is accountable to a minister, to the government and to the parliament, in the middle of relocating its headquarters to a brand new building, which is being built by an independent enterprise of government. It is allocating in its budget \$43 million to refit a new headquarters while our state is sitting in the middle of a drought. Not only is that insulting but it indicates to me that the minister who has responsibility for this ought to be saying to them: 'We know you need a new headquarters. We think that's probably a good idea. But the rest of the

state is suffering at the moment. We've got dead lawns all over the city; we've got branches falling off trees. So we need to exercise a bit of restraint here. We will extend the lease on where you are for a bit longer and we'll look at this again in the future.' The priority at the moment is to get water out to those who need it, not to have new desks and computer terminals and a new headquarters and new carpets for the regulators. That is obscene. That is the sort of priority that we see as a problem, because it creates a high level of angst in the community, who are already distressed—that is, the half million people who live outside of metropolitan Adelaide in particular. My people in the city feel a bit unhappy because their lawns are dead, but to people in the real agony of this, in that rural community where every four days one person is committing suicide, that is an insult. I see that sort of situation as one where a government has dropped the ball on what they are spending on the most important issue in the state. Their priorities are all wrong. I want to reinforce that.

The other thing is that they are not really facing the reality. I will table today a couple of reports that were done. I will not speak to them; you can read them for yourselves. One was *Opportunity squandered: how the states have wasted their reform bonus*, by Mike Nahan, from the Institute of Public Affairs—and his presentation on that. The other report is *State of the states*, which the Menzies Research Centre commissioned Henry Ergas to do; it covers everything up to June 2007 and some of the data in that is a little bit older. What they say is not only have they had a lot of extra money but what is really important, and Henry Ergas especially stated this. The committee can say, 'Well, they are the conservative think tanks of Australia'—or whatever else you might like to say about them—but I would like the committee to look at all of these reports and understand that this is a serious situation around Australia.

That is the message for us in here. They have kept pace with private enterprise with the payment of salaries to the Public Service, who, let us face it, are the major cost in each of the portfolios that the state has responsibility for in its budget. They are paid a proper salary for the work that they are doing and yet the productivity is wrong. I was in Switzerland last year when I met with the head of a major public hospital in Lucerne. He said to me: 'I've been to Australia, Vicky. I know what the problem is there. You have got plenty of money but you have got a productivity problem.' I can go across the world and they can tell me that. I can go to Murray Bridge which, for our visitors, is a local location, and the doctors there at the local hospital will say, 'We have 200 blowies a week.' For those who do not know the expression, that means people who just turn up without an appointment. That is the same as emergency departments all around in the major public hospitals. They accommodate them and they deal with them. Why can they do that with a pool of half a dozen doctors in a little local hospital and yet we cannot deal with this up here?

I will say this: the government here have actually looked at the question of why the productivity is so bad. They have commissioned Paxton Partners in Melbourne to prepare a report on the efficiency of public hospitals. And, as they would, three major CEOs in the state have just jumped off the log—they are like frogs jumping off a log over here. At the Flinders Medical Centre, the Royal Adelaide Hospital and the Women's and Children's Hospital—the three premier tertiary hospitals in this state—the CEOs have walked away—as in, resigned, not renewed their contracts et cetera. This report is a secret. I do not know whether Nicola Roxon is going to be shown a copy. She, to her credit, is actually calling for some accountability of states' expenditure. I hope she gets it. They will not tell us how much they paid for this report. They will not tell us what is in it. It is not going to be available. The secrecy of that just compounds

the problem because, if there is something in there we have to face and make hard decisions about—whoever is in government—we need to know what it is. You do not pay millions of dollars to these consultants—and I can tell you, if you go through all the annual reports of all the things I look after you will find we spend millions of dollars a year on consultants—and then let the reports sit in the dustbin or never get to see the light of day.

IMVS—the Institute of Medical and Veterinary Science—is another example. It is a 70-year-old organisation whose biggest income earner is pathology—blood tests. It does them at \$25 bucks a pop. For historical reasons and some political—

**CHAIR**—This is a state government instrumentality?

**Ms Chapman**—It is an instrumentality that receives state government funding but it sits a bit on the outside. It has been the major provider to all the public hospitals. It attracts 50 per cent of the GP service because it has the credibility of being an institution close to the university et cetera. It has a high level of credibility. To save \$2 million, the government has announced that it is going to centralise the pathology services in South Australia. Obviously, you would have to look at that and ask if it is a good idea. Let us say, even if it saves \$2 million, perhaps that is a good idea. They have spent \$238,000 just to pay Paxton Partners, again, to do a report on the amalgamation of the services.

There are two other services that provide for public health, which is a big cost in their annual revenue: Women's and Children's Hospital and Flinders Medical Centre. Both have their own pathology units and that is for historical reasons. The production cost of their service, per unit, is \$31 at South Park, which is the Flinders Medical Centre, and \$71 at Women's and Children's Hospital.

Would you not think that, when Paxton Partners present a report to the government, they would say, 'Let's at least look at the model of the IMVS and see whether we should just amalgamate those other two into the IMVS'? It is functioning very well. It has attracted all the income from the private sector. Why would you disturb it? But the attitude would be: 'No. That might upset the others.' So why not do this: give it a new name, call it SA Pathology and amalgamate them all but use the IMVS model? But the attitude would be: 'No. That might still upset them.' That is the stupidity of the failure to have the courage to make the decisions that are necessary to make sure that even if they are on the right track they actually do it in a manner which will be of benefit to South Australia—in this case economic benefit so that the taxpayers are not paying as much.

**CHAIR**—You are generating a lot of questions, and we do want to have time to put questions to you. But please keep going.

**Ms Chapman**—I will be brief. Barristers used to get paid by the hour, so I suppose that is why I have kept talking.

**Senator FIELDING**—I thought it was by the word.

**Ms Chapman**—That is when you are reading the folio! I want to say something in relation to the waste of money aspect. What has happened to this money, and are we doing it sensibly?

What is the government doing here? Let me give you an example. Last December there was a major bushfire. Most states have them every year. We get multiple lightning strikes. This time it happened on Kangaroo Island. It is a place dear to my heart; I was born there. It is the major tourist destination in South Australia by far. It has an agrarian history, basically, with a bit of fishing. It has wildlife that I would have to describe as being of world significance, so there is an environmental capacity. It has no rabbits and foxes, so it has been quarantined from pests and for that reason has completely contained water systems unique to the world. These are three very important factors to protect that island. Due to lightning strikes, 95,000 hectares was incinerated. This happens. Most of it was in the national parks. It overlapped into farmland and affected some houses. One boy died. Generally, the whole thing was a tragedy.

After all the reports we have had around Australia on the importance of having decent firebreaks and doing cold burns, what did we do? For the non-South Australians, I might say that we had a major fire two years ago on the west coast where a large number of people died and a whole area was incinerated. In this case we had kangaroos jumping off 400-foot cliffs out of the national parks into shark infested waters. It was a smorgasbord for sharks. We had koalas who were in agony and had to be shot afterwards, because there were issues about management during the fire.

Everyone knows that fires are cruel, nasty and expensive things. I have written to Minister Zollo and asked, 'How much did this fire cost?' She said, 'We still haven't finished adding it up.' Some guesses are between \$10 million and \$20 million. I asked the minister for the environment, 'What about spending a bit of the money, which is in the plans, which is in the documents, which your department and every other department has advised you to do, including on the cold burns? Hasn't this been done to help manage the situation which we know is going to happen? We cannot stop lightning, but we do want to have natural vegetation, we do want to have parks and we do want to keep world significance. How do we manage this?' She said, 'We had planned to eight burns.' I said, 'I know that. That is in your plan. Why did you only do one?' She said, 'The climatic conditions weren't right. It was a bit windy one day and the rain stopped a bit early.' I said, 'Did you think about doing these burns in the autumn?'

These are practical, hard decisions that ministers have to make, which, for a couple of million dollars, according to their own plan, could have been undertaken. Now we have a multimillion-dollar mess to clean up. We have had people from all around Australia come to help us, like we do in major bushfires in Australia. Fires are very expensive, cruel and disgraceful things. That boy's life is priceless. We still have to do his coronial inquiry. That costs money. The human and economic costs of these things are huge because people in government are not prepared to make the hard decisions to make sure that they are spending the money efficiently.

I conclude by saying this: the government's answer to bushfires is to introduce a bushfire penalty of 20 years for anyone who lights a bushfire. It sounds good, doesn't it: 20 years imprisonment? The truth is that in South Australia you already get a life sentence for arson as the maximum penalty. It is superficial and it means that we are not dealing with the big issues.

The real concern here is if they keep spending this money, if they do not provide infrastructure, if things start to go sour, if Wall Street starts to implode and if China starts doing a few things that we do not like it to be doing. Then what will the governments who have dug this financial hole do? The answer to that is quite simply: raise more money. The most easily

accessible way to do that of course is the GST. There is this golden opportunity in political history at the moment where you have all governments of the same persuasion in a position to be able to do that. When you chaps were involved in establishing this legislation you probably thought that that would never happen. But there is a golden opportunity to write the cheque or to increase the credit card limit to make that available, and I am very concerned about that.

What for South Australia? While I have an opportunity I will always give it a plug. I am the sole member of this faction. South Australia is a small economic player, but we think we are a very important one. We have been raided by the other states over the years. Every time you have a gold rush in Victoria they nick off over the border and everything else. We have had our problems in South Australia, but we can proudly say that we are the only non-convict-settled state and all the rest. We need to address some of the infrastructure issues in the sense of our size in the whole region, which I suggest should include South Australia amalgamating with the Northern Territory before Queensland raids it and takes it. We have some major decisions to make in South Australia. Obviously, as members of parliament we should be doing everything we can to expose and highlight the areas that need to be improved. I think we are on a dangerous slippery slope here financially. We need to help the government do that.

I am the deputy leader. Our Deputy Premier is the Treasurer. He told me in the parliament that he cannot read a balance sheet. That does not exactly fill me with confidence. I am pleased that at least he has a whole lot of advisers who sit next to him who can and they are able to do these reports and say where all the money is coming from. I want it to be spent fairly and I want it to be spent sensibly, otherwise we are going to have a serious problem.

**CHAIR**—Thanks very much for that, Vickie. I found that very interesting. Just for the record, though, Queensland will not take over the Northern Territory.

**Ms Chapman**—You will sell it to Western Australia, I know.

**CHAIR**—No. We have plans for a new state of Northern Australia which will take everything north of the Tropic of Capricorn and then we will feed the rest of Australia with money, goods and services, and water. So forget about the Northern Territory for South Australia. Will start with Senator Chapman, continuing the Chapman theme.

**Ms Chapman**—He is no relation.

**CHAIR**—No.

**Senator CHAPMAN**—Vickie, you referred in your remarks to items that were being undertaken out of the capital works budget that you thought were inappropriate. Before moving to that can I ask you: at a state level what items do you think are appropriately funded by debt and what should be funded out of recurrent revenue?

**Ms Chapman**—In other words, what is good enough to borrow for?

**Senator CHAPMAN**—Yes.

**Ms Chapman**—There are clearly infrastructure programs that are unable to be funded from recurrent expenditure—not the least because you need a huge lick of money to come out of three or four years allocation by the time you do the planning, the architectural drawings, send it out to tender et cetera. There are some projects that are so big that you clearly cannot do that in the time frame. So for major infrastructure the real question then becomes: do we borrow money ourselves and have the benefit of being a significant player in the market and being able to attract a low-interest rate loan et cetera or do we plunder our own fund reserves as a state to do that or sell off certain assets to raise that money? In other words, do we pay for it out of our own money, which is taxpayers' money and assets, or do we borrow for it from somebody? If we borrow from somebody, what will be the terms for the repayment? Or do we do the third option which has 100 products in it? This is the PPP option where you can have 100 combinations: you can contract them to build it and lease it back to the government; they can put their employees in or the government can put its employees in—there are a whole myriad of products, to use bank terminology. But the bottom line is that it is their money. How long you repay it and how much they keep the asset at the end of the day will depend on what the terms of the contract are. So clearly there are those that can go into that category.

The government have had a bridge project going on here in South Australia. The bridge is having a bit of a problem actually lifting up and meeting at the right spot at the minute, so they have a few engineering problems, I think. That is something that has attracted a PPP-type thing. The process of that might be quite sensible. Generally, the opposition take the view that PPPs are a commercially sensible alternative for governments and businesses that are out there. The extent to which you, as a government, keep control of the workforce in PPPs is a distinguishing feature between the private and public sectors. If it is a revenue earner—a bridge has a toll and there are other types of things which you seem to be doing plenty of around Australia, although we have not got to that stage yet—I simply say that there could be some merit in retaining the asset and having a product and all that. Where it is a school or a hospital, then we have to think about whether we look at a direct line or limit the PPP contract.

**Senator CHAPMAN**—Take a school or a hospital as an example. Ideally that would last for several generations. Is it more appropriate to fund that out of borrowings and therefore have the generations that are going to benefit from that pay it back in effect over an extended period of time? Or should it all be, if possible, paid out of revenue today, with just this generation paying for it and the future generations that get the benefit not making any contribution? What is your view on that?

**Ms Chapman**—I think the lifetime of the infrastructure of schools, for example, is much different now than what it used to be. That is the first thing I think is worth pointing out. They do need to be replaced, a bit like computers these days. The lifetime of them is very much more limited. The element of change in both health services and educational services means that there needs to be some level of flexibility. To use an example: if a school has a 25-year lifetime then you have a project which spreads over that period of time, and you make sure that there is provision in the budget for the renewal. It is a bit like having Commonwealth grant agreements. Ours expires in a few years time. We do that so that we can have a review—have a fight again—with the Commonwealth and the states as to who gets what and so that we can draw a line in the sand and make everyone come to the table again. I understand the Prime Minister is looking at whether he just has a continuous one—some sort of formula—and that we just have a CPI or something with it. I do not know what the detail is. It may be something worth looking at. We

have fixed term arrangements, just like EBs with all of the public servants. It brings people back to the table: ‘What do we expect of you; what are we going to pay you; what are the terms and conditions going to be; how is it going to work; and how we going to manage the new things, the contemporary things, we are expecting the public service to do?’—all of those things.

**Senator CHAPMAN**—Can you tell me what proportion of the capital works budget to which you referred, and which you thought included some inappropriate items, is funded from revenue and what proportion is funded by borrowing?

**Ms Chapman**—I have not done that exercise. In our budget papers, you will see in the general budget paper—which is really just a summary by the Treasurer that highlights the extent of funds that are being allocated to PPPs—the extent of the total debt, and some of that has been summarised in the material that we have given you. Essentially, that proportion is a bit of a combination. The big picture items here in South Australia are prisons, schools and the \$1.7 billion Marjorie Jackson-Nelson Hospital, which is really \$1.9 billion because there is \$200 million over in the transport budget to clean up the rail yards it is going to go on—so it is nearly a \$2 billion project. These are big projects and, quite reasonably, the government looks at whether they PPP them, but we have done the exercise and the cost under their PPP model is going to bankrupt our grandchildren. That is the way we see it, and we are very concerned about that. But that may be the management of the model that they are using, as distinct from whether it is a PPP or not.

**CHAIR**—That hospital project is mentioned in Martin’s summary, but what I gather from what he says there is the concern that it is not taken into account in the budget, because the payments do not start for another 15 years.

**Ms Chapman**—Correct. They say it will be past the forward estimates; that is right. There is no provision for it in the foreseeable future other than \$200 million that is in the transport budget, which is to clean up the rail yard and is separate to the \$1.7 billion.

**Senator CHAPMAN**—So your concern is that these items that are going into the capital budget are really not adding to new capital.

**Ms Chapman**—No; they do not add one scrap to the balance sheet.

**Senator CHAPMAN**—They are, in effect—

**Ms Chapman**—They should be recurrent expenditure.

**Senator CHAPMAN**—maintenance, basically.

**Ms Chapman**—Yes, maintenance.

**Senator CHAPMAN**—You have obviously raised these issues with the government.

**Ms Chapman**—Absolutely.

**Senator CHAPMAN**—How do they respond to what you regard as an inappropriate allocation or description of funds?

**Ms Chapman**—In relation to a small capital work to a hospital, it generally gets the response, ‘Don’t you want us to spend this money?’ rather than an explanation as to why it should be in one column or another. That is politics; I accept that. But there is a question when it comes to—and you will see this—the refitting of all these different headquarters. When most governments come in they will, to be frank, change the letterheads and have a new logo and snap it up to make it look more in line with whatever political party is in office. We accept that—a few million dollars is always wasted. But we are talking about not just the letterhead but tens of millions of dollars in refitting: new names of departments, new buildings, refitting into new offices. This is not just moving the furniture and paying for the furniture van. The cost of cabling into a department is massive, as most of you would appreciate, I am sure. You try and move the Commonwealth tax department down the road and see what the bill will be. I think it is important to appreciate that these are \$4 million and \$5 million a pop. That is the concern.

**CHAIR**—I do not want to cut you off but we really have it to move on.

**Senator CHAPMAN**—I just have one more question. The submission refers particularly to the blow-out in the number of public servants that are being employed. Is that a major long-term problem for the state? To what extent do you believe that that is reducing the state’s capacity to provide necessary infrastructure?

**Ms Chapman**—Obviously this is where we have identified a large soak-up of money, so to speak. When you look at Ergas’s figures, he says that just to continue to pay them at the new EB agreements of the current workforce takes up about two-thirds of that increment. But there is also the new cost and the new worker workforce—10,000-plus new employees cost money. It is as simple as that. The government will say that that will be extra nurses, police and so on. Whether they are actually in wards or in classrooms or out on the street is another question—and that seems to be a rather difficult question to get answers to. But can I say in principle it is a problem to this extent, that it is important to identify where that workforce is necessary to be maintained. It does soak up the available funds that are easily able to be quarantined for capital works—no question about that.

I notice that the Prime Minister seems to be reviewing the Commonwealth Public Service. All administrations come in and review these things. Certainly he has made comments about some excesses that he sees. I think the Department of Defence is about to get a big whack. In his view—it may be right or wrong; I do not know—there has been a very significant blow-out in the number of people that I would not like to describe by using the word ‘non-performing’ but that I would say were on-the-ground people. I am sure these people actually do things all day that are very important. There are probably a few that do not, but every agency, whether government or non-government, will carry that. But it is a real problem, and it is soaking up the money now. Naturally—just as it will in the Defence employee service—it causes a bit of angst amongst the workforce as to where they are going to go. Fortunately for Australia, it is at a time when I am sure any of them that are paid out of their contracts will be snapped up anywhere else. It will be a bit like our Mitsubishi workers: a thousand people here have just lost their jobs and before the ink is dry I am sure they will be snapped up. I think there are some ways forward with that.

**CHAIR**—In Northern Australia, I would think.

**Senator FORSHAW**—I have a couple of questions. Thank you for your submission and your attendance. Listening to your comments about consultants reminded me of what I have heard for many years as a member of the Senate Standing Committee on Finance and Public Administration in its inquiries. On the PPPs, what other PPPs have been done in South Australia?

**Ms Chapman**—I have not got a list in front of me. But for example, under the Brown and Olsen administration—and let's face it, these are a model of financing post the eighties—in South Australia, in a nutshell, from about 1990 when things were really sticky here financially, with State Bank debts and so on, there was not a lot of building. But one that springs to mind was part of the Southern Expressway, which was a Commonwealth and state funded exercise which got started in the mid-1990s.

I am not certain about this but the prison in Mount Gambier may have been partially PPPd. A private contractor provides correctional services administration in it now. This government have kept that going. In the development of infrastructure consistent with private enterprise and I think with governments around the world, we moved into this PPP model.

**Senator FORSHAW**—There are different forms of PPPs. One is where the ownership transfers or in some cases is actually retained all along by government. In others it is transferred back and then you have the various arrangements about ongoing maintenance costs and collection of revenues. I am just trying to understand—I gather the position of the opposition is that it does not like the model of the PPP which is proposed for this hospital but it is not opposed to a PPP as such.

**Ms Chapman**—Absolutely. The Liberal opposition does not present that all PPPs are bad. We say that on the government's own financing for \$1.4 billion it could completely rebuild the hospital on the current RAH site. That is our proposal; that is our clear position. We say that we do not have a revenue-earning enterprise like a toll road and hospitals are not revenue earners other than that you might sublet out for doctors, specialists or whatever. There would be limited revenue coming into that enterprise other than the government payment to whoever the PPP contractor is. We are very concerned having done the modelling. Plus we say there is \$200 billion being spent to clean up the rail yards where there is a major contamination. So there are other issues. It is an earthquake zone; it is in a flight zone.

**Senator FORSHAW**—I heard you make similar comments in your opening statements about revenue earning in tollways as against service delivery, say in education. Do I take it from that essentially that you do not support PPPs in the main as a model for financing educational facilities or hospital facilities?

**Ms Chapman**—That is something we are concerned about unless they are revenue earners. That is another aspect that I think needs to be looked at, the question of how you actually develop these sites. For example, if it is for a public education school site and that is the only occupant of it, then all you are going to do is have the department of education paying X consortium a monthly or weekly payment to provide either the infrastructure or the maintenance

contract and/or the staff, depending on which level of complexity you go down as to what you are paying them for.

**Senator FORSHAW**—I do not want to debate this as a political point because I think there are instances where PPPs have been very successful in both types of enterprise. I am from New South Wales so I do not need to talk to you about tunnels, you already know about them, but equally I am aware that indeed the Department of Defence in the federal area is funding major redevelopment of its base accommodation through PPP but retaining ownership.

**Ms Chapman**—To transfer the risk to a contractor or consortium is essentially what PPPs are about. Instead of borrowing the money and managing it yourself and then getting—

**Senator FORSHAW**—It is about that but it is also about maybe giving governments the capacity to do things sooner than they may otherwise be able to do by taking a huge chunk out of the budget.

**Ms Chapman**—Absolutely. But, frankly, it is like a hire-purchase plan. At the end of the day, we have gone through this exercise around the world and, sure, some have been very successful, probably the best managed ones. There are two schools of thought on it. Obviously down the track we can see that there are some major problems with them. We are concerned, therefore, that for the biggest piece of infrastructure we are about to build—or start to; they are tendering for consortiums at the minute—we do it properly. We have got a budget of only \$13 billion a year, so for us it is really important that we get it right. But fundamentally it is like having a hire-purchase contract. You either pay for it now with your own money or, if you have not got your own money, you might borrow it. If you have not got the personnel to manage it, then you might move on to these other products. But they are going to be more expensive.

**Senator FORSHAW**—I have one other question and then I am happy to let Senator Kirk follow up. She knows a bit more about South Australia than I do. I notice that the major growing source of state revenue—correct me if I am wrong—putting aside the GST, is payroll tax collections and property. If you look at the tables in your submission, and each of them is factored out to 2010-11, there is a steady increase. In the case of gambling it is not huge from 2004-05 through to 2010-11. Could you expand a little bit more about the revenue side? If, as some people predict, the property market takes a major downturn, what does that do to state revenue? Similarly with land tax collections, conveyancing and stamp duty—that whole area.

**Ms Chapman**—Property taxes are certainly propping up the amounts we are getting and these are the ones that really blow out—it is GST as well—once they review the estimates.

**Senator FORSHAW**—That is what happened in New South Wales.

**Ms Chapman**—That is right. You have a bigger boom. But clearly these things come to an end, and we are heavily reliant on them. Gambling taxes are up there, let me say. I have a former chair of the audit committee of the TAB here—

**Senator FORSHAW**—They are always growing. I was not seeking to dispute it. I just notice that it was \$401 million in 2004-05 and it is predicted to be \$446 million. I was just trying to use that in comparison with what is happening with the other sectors.

**Ms Chapman**—What is most concerning for us is that we are not comparable as a state. This is a question of attractiveness when it comes to stamp duty on homes, for example. Most of our kids could buy a \$300,000 home—first-time owners—for a pittance of stamp duty in Queensland. Who is the Queenslander?

**CHAIR**—I am.

**Ms Chapman**—I will not say anything more. But here you pay \$12,000 or \$13,000. So we are just not competitive in lots of areas of our property taxes. The government have tinkered with them, but obviously they are enjoying the flow of revenue. The tragedy is, from our perspective, they are wasting it.

**Senator FORSHAW**—My final question is: the submission notes that unfunded superannuation liabilities have blown out too; they are expected to be \$5.9 billion by 2011, when the figure was \$3.2 billion. I would debate that point, but I notice that it seems to be levelling out over the period from 2006 onwards. What was the explanation for that?

**Ms Chapman**—My understanding is that largely that is the changes in the superannuation structure. Suffice to say that public servants of the chair's age—who started a long time ago—

**Senator FORSHAW**—You said that, not me!

**Ms Chapman**—are on the original structures, what we call mark I. They are reducing in number, as valuable and wise as they are. I think that is the major factor.

**Senator FORSHAW**—That reflects the structural changes that have occurred.

**Ms Chapman**—Probably what you guys have done in the Commonwealth is to change the structure, because we flow on from you.

**Senator FORSHAW**—There were substantial reductions in Commonwealth public sector employment after 1996, and in some of the states too. I am just wondering what has happened in the workforce here.

**Ms Chapman**—In entitlements or numbers?

**Senator FORSHAW**—Numbers.

**Ms Chapman**—Numbers have gone up. There are about 750,000 employees in South Australia and 500,000 work for small business. Another half of the balance work for government structures—that is the Commonwealth, state and so on—and the other half, rule of thumb, are big business.

**Senator FIELDING**—I want to pick up a point that was raised earlier about the need to reduce duplicate administrative structures that have arisen between the Commonwealth and the states and territories. Do you have any views on that? I know that you have made a fair few statements about the budget position and the perilous situation that the state is in, and I will come to that in a moment, but first I wanted to cover the issue of duplicate services.

**Ms Chapman**—I think the biggest single issue—I have not addressed it today; there is a small reference in our papers—is not the duplication between local, state and federal governments but the fact that we are creating a fourth arm. I am not talking about an Asian parliament and court system, like Europe did; I am talking about regional government. In South Australia, in the short time I have been in the parliament, we have established a whole new regional structure for stormwater, for example. All these projects now have to go into a new regional body. We have created a whole new structure for natural resource management, so instead of local councils having a fire inspector and so forth, we have got regional structures. Land management and bushfire management—the Country Fire Service, CFS, and the Metropolitan Fire Service, MFS—are moving to a regional structure. So we have got the fourth column coming in here. That really raises a question. They all have representatives on each other's bodies and they all talk about the same thing.

You could pick out one issue: pest control. You have a pest control officer in the local council, you have one in the regional group, you have one at the state government level—they have several departments with pest control officers—and they are all after one rabbit. I am very concerned that we are moving into another whole structure. They are all fighting for the money, they are happy to transfer over an area of responsibility about who kills the rabbit, but they all want the money to look after it and write a report on it. That is my concern. I will leave it up to all the people in governments to try to rationalise and not spend money where some other government is already doing it, but we have got a fourth list here.

**Senator FIELDING**—Knowing that time is tight, I have one further question. Your budget overview states up-front that state debt is now forecast to top \$3.4 billion by 2011. It is a pity that the state government has not made a submission. Is that right?

**Ms Chapman**—Yes, that is my understanding.

**Senator FIELDING**—The state government has also chosen not to even come. So we are getting one side and not the other side. That makes it really difficult to work through it. Obviously you have put forward a position that the state is in a perilous situation and you have made some very large claims and we are left not being able to find out the other side, which is very disappointing, frankly.

**Ms Chapman**—Can I say this: I am happy, for the benefit of looking at the other side, for the whole of the state budget papers to be looked at. I am happy to formally table those so that you can look at the whole lot. They proudly tell you that they have restored the AAA rating in South Australia and they are balancing their books. For the reasons I have explained there, and there are two major ways of effecting an assessment of that, they are actually not—they have a major problem there. So they are deluding themselves. You will read it all there. You will see that they have got all these projects on the horizon. My point is that most of us will be dead before there is a benefit of this, or our children or grandchildren see a benefit. AAA ratings mean nothing if we are not actually managing and we are wasting, and that is my point. I will formally tender the whole of the budget papers and you can have a look at them.

**Senator FIELDING**—No, it is just disappointing that we do not have both sides.

**Ms Chapman**—I am disappointed they are not here. You would think that if they were really not worried about it they would be here to champion their cause.

**CHAIR**—I am hoping your attendance and your evidence may encourage them to put in a submission. Senator Bushby?

**Senator BUSHBY**—I had a number of questions, but time is short so I will just pick out a couple of them. By the mid-1990s, from which time most of the Labor governments were elected, things were pretty tight across the nation and I think all new governments coming in at that time came in with a view of tightening the belt, cutting back, eliminating debt and certain objectives like that. For instance, the New South Wales government actually legislated that it would be reducing its debt over time, with certain criteria it was going to meet and approaches and values it was going to apply in trying to do that. Did the state government of South Australia when it came in do something similar—make broad statements aiming to eliminate debt?

**Ms Chapman**—No, and largely for two reasons. The first is that we have had the reverse here: a Liberal administration came in from 1993 to 2002 and cleaned up a nearly \$4 billion debt that was largely a State Bank legacy. It had WorkCover, with its unfunded liability, down to about \$64 million. The instrumentalities were in order in 2002. You can talk about whether or not that was the economic circumstances of the time. Other Labor administrations came in when they perhaps were not as favourable around the country as for the government here. The government here came in in 2002. It has been drowning in money ever since. That is the difference.

**Senator BUSHBY**—That is where I was going to go. Since the early 2000s the fiscal situation of most state governments has changed, due to the national economic conditions changing, and they have found themselves in a situation where the revenue that has been coming in has consistently exceeded the budget estimates. But they have managed to spend it all nonetheless. Today we find ourselves in a situation where most state governments are actually going into deficit, despite the fact that they have got all this increased money coming in.

**Ms Chapman**—That is the tragedy. Anyone can steer a boat when it is calm, but when a storm comes you have got to have spent on the infrastructure and maintained it and have it ready. We clearly will go through the economic cycle. We have seen all the signs. Wall Street is nearly in crisis. We are going to have some impacts in Australia. We cannot cushion ourselves and quarantine ourselves from the world. That is the distressing part of this—the squandering.

**Senator BUSHBY**—Exactly. ‘Cushioning’ is an interesting word. From some of the submissions I was reading last night, it was quite clear that in New South Wales the actual intention from 1995, when they introduced the act, was to build a cushion, to use the good times, when they came, to put money away to be able to guarantee that, when bad times came or things deteriorated, they could continue to provide the services that were required without having to increase taxes. That might mean that they actually borrowed some within certain appropriate percentages, or that they called on reserves that they had put away in the meantime. But it was a very responsible approach, which since the early 2000s seems to have been thrown out by most governments. The state government here, as you say, came in in 2002 and has had money ever since and has never—

**Ms Chapman**—They have never been without GST.

**Senator BUSHBY**—So they have never tried to put away a cushion or create any form of insurance for the future, whether it be for addressing things like climate change or drought or international shocks or major national shocks? There is nothing like that—no long-term strategy?

**Ms Chapman**—And the other concern is that they have let other places get out of control. WorkCover is a classic example.

**CHAIR**—On that point: is it doable? Politics aside, what Senator Bushby says is very true and a concern, and it is a concern from a national point of view that state government debt is blowing out whereas federal government has contracted to nil.

**Ms Chapman**—The answer to that is: of course it is doable. It is not just a question of saying, ‘We are going to quarantine off 15 per cent of our budget for capital works or infrastructure.’ That is simplistic. I want this government to make sure that they understand and do not ignore—put the blinkers on or whatever—that there is a major problem with how they are spending their money now. How can you proceed to build the biggest piece of health infrastructure we have ever had in the history of South Australia and then put in it an inefficient health structure? They have got a report there which is hiding away and which they are just ignoring. They have got CEOs jumping off the log and we have got a blinkered situation. In, whatever, a year’s time, they are going to supplant an inefficient process. ‘Open your eyes’ is really my message to the government here. Do not try to hide from it.

**CHAIR**—You are an alternative government, but you have looked into this and you think it is doable to bring the budget back into a surplus and try and pay for your capital works.

**Ms Chapman**—Manage the money properly.

**Senator BUSHBY**—To what extent does the state government pull money out of government business enterprises, whether by dividends or taxes?

**Ms Chapman**—SA Water is a classic example. We have got a number of corporations that sit alongside governments. They are independently accountable but they are largely government operated. I think about \$350 million came out of the profit of SA Water last year. Frankly, this was one of the issues about ETSA. With all of our electricity here—before it was privatised, sold off to pay off the State Bank debt—all of the profit was being sucked off by government every year, without money being allocated for infrastructure renewal. That is a problem.

**Senator BUSHBY**—Is that sent through as a dividend or is it a tax? Is it decided by the government or is it decided independently by the board of SA Water?

**Ms Chapman**—No, it is a requirement under the agreement. When I say the agreement, there is legislation on the interrelation between SA Water, the parliament and the government. They are obliged to hand over a certain amount of money. The government can change that at any time. Frankly, one of the things that should always be in the charter of these organisations is that

they should ensure that their infrastructure is renewed out of their budget before they hand over the nominal profit. But at the moment that is not a requirement. They have to hand it all over.

**CHAIR**—Is the arrangement for a fixed dollar amount or a percentage of the profit?

**Ms Chapman**—No, there are certain things to come out basically.

**Senator BUSHBY**—Is it a bit more ad hoc?

**Ms Chapman**—Yes, there are qualifying factors. I do not have all the detail in front of me, but essentially it has been a revenue earner around the \$300 million mark over a period of time.

**Senator BUSHBY**—At the same time you have got water problems in South Australia and SA Water has an inability to deliver.

**Ms Chapman**—SA Water got new carpets and everyone else is dying of thirst.

**CHAIR**—We got a nice headquarters anyhow.

**Ms Chapman**—SA Water did.

**Senator KIRK**—Thank you, Ms Chapman, for your submission. Given the time, I will just ask you a couple of quick questions. I was interested in what you said about the River Murray levy and the fact that none of it has been spent.

**Ms Chapman**—Not none of it, only part of it.

**Senator KIRK**—Can you give us an idea of how much has been raised and approximately what percentage has been spent?

**Ms Chapman**—I will have to get those figures for you. I think only about a quarter of the money has been spent. I argued this late at night in the parliament and the Deputy Premier gave an absolute commitment that the River Murray levy would be applied to the restoration and renewal of the River Murray. It was always a concern that they would just chop it off the budget or off the committed allocation under the commission, which is still there, and it would be supplanted and replaced. This was an absolute commitment that there would be no diminution of other commitments to the River Murray, that this would be an addition and it would go to that. It is really concerning to us. From what I have heard so far, the government's general answer is: 'Oh well, we haven't got the projects in place. We are still looking at the plans.'

It is really distressing because people give to a cause that they are committed to. You are a South Australian and I am a South Australian and for different reasons we are passionate South Australians. We know how important the Murray is to us. When people hand money out of their pocket, genuinely expecting that it will be applied to what they said it would, there is quite a level of anger when it does not happen. It is very disappointing.

**Senator KIRK**—Perhaps you could provide us with those figures.

**Ms Chapman**—Yes, I am happy to get them.

**Senator KIRK**—I take it that your general point is that a huge amount of money has come in and a huge amount of money has gone out during the time of the Rann government. Obviously, if you start decreasing taxes then you are going to have to decrease revenue. If you are reducing what comes in then what goes out has to be reduced as well. I wonder if you have any views about the taxes that currently do exist and ought to be reduced? You have mentioned property taxes and stamp duty. Are they the main areas where you would like to see tax cuts?

**Ms Chapman**—I do not think that is the real question.

**Senator KIRK**—It is more about efficiency, is it?

**Ms Chapman**—It is more about the efficiencies at the other side. The government has spent between \$8 billion and \$13 billion in the last few years. There is extra money that they have been spending. If we had new hospitals and new schools—we have got half a bridge at this stage—and we had something to show for it then we would have demonstrated the capacity to do that. But what the Premier or the Deputy Premier say to us now is: ‘What school do want us to close now? I have already closed a few, but what service do you want me to cut off if I am going increase the threshold on stamp duty or payrolls or the like?’ That is a very simplistic, superficial approach. With respect to the question, I would say that it is important to be much more fulsome in the approach here. There has been a lot of extra money. It is always hard for governments to say no to all extra things. If they open their eyes and look at the other side of the ledger, see how it is being spent and bring those people to account, and account to their federal counterparts, Ms Roxon and so on, then I think you would find that there would be a lot of extra money there and we would have a lot more to show for it.

**Senator KIRK**—So you are really saying it is the efficiency of the expenditure on the other side that needs to be examined rather than trying to reduce or increase the amount that is coming in.

**Ms Chapman**—Absolutely. The opposition are convening a tax summit in May to review all taxes. Property tax has been highlighted here. Gambling taxes are our biggest revenue earners at the state level. The rest is Commonwealth grants and GST.

**CHAIR**—On that same note, Ms Chapman—and you are having your tax summit so perhaps this question is premature—is there a better form of revenue for state governments? In your case, you make the point that the increases in taxes in South Australia seem to have easily beaten any other state, which cannot be good for South Australia’s competitiveness.

**Ms Chapman**—That raises another competitive issue, yes.

**CHAIR**—Yes. GST is bringing in a sort of growth tax, which is really good in good economic times but will not always be. Is there a better way to fund state governments?

**Ms Chapman**—Notwithstanding that we have not used it for a long time, we have always retained the power to have an income tax. But we have never applied it, and I think any party proposing it would have a death wish. We have other options there that match what the

Commonwealth have. As you know, company tax and income tax are the big Commonwealth earners—you pick up GST for us but give it all back to us—and we have left them alone. There are a number of little excises that we have agreed to chop out in exchange for the GST. The property tax and stamp duty on mortgages are still here, and that has caused a bit of angst. There are a few little thorns in the side of people who thought they should have a promise, but perhaps that is Meg Lees's responsibility in the end. She was the one who changed the GST formulas. In short, we will be looking to answer just that question at our tax summit—as to whether there are alternate revenue sources. This state got into trouble in 1992, under the responsibility of the Arnold-Blevins government. They thought the answer was poker machines. Whatever you might think of them, they have been a major revenue earner for this state but they have come at an enormous human cost and political parties have blossomed from it. I think we have to learn some lessons from that.

The government here have attempted to reduce the damage by cutting out 3,000 poker machines—a bit like taking one drop out of a bucket. The government here have gone down different paths of trying to muster that. In harsh times it is actually gambling taxes and such things that go on the rise, tragically. I am a divorce lawyer, so I know: in harsh times people get divorced. It can be a cruel twist. If we go into hard times, we have to look carefully at the taxes that are actually going to be most rapacious against human capital.

**CHAIR**—On that basis, you raised the issue of a possible increase in the GST. Is that an alternative?

**Ms Chapman**—As the Liberal Party, we do not think so. We think that is a very wrong way to go. It is an easy way to raise money. As we know, it is like taking candy from a baby: you guys collect it for us basically and hand it all back to us, and people out there are happy to spend. We are a big consumer country. Every kid has a mobile phone. Everything has GST on it and it is a big revenue earner, so it is very easy. I think that is the most attractive option, given the circumstances of all one political persuasion being in office around the country—and it may be the most attractive option for the Liberal side in similar circumstances. But, from the Liberal Party point of view here in South Australia, we do not think that is an option. We think that is a dangerous option to go down because it not only brings in more taxpayers' money and unfairly places the burden on them but lets the government get away with continuing to be inefficient, and that is obscene. That is the issue: residents and taxpayers of South Australia deserve better. They deserve that side of the balance sheet to be sorted out.

**CHAIR**—Thank you very much for that. It has given those of us who are not South Australians a better insight into the matters we are inquiring into. Thank you for coming along today.

**Ms Chapman**—Good luck with your deliberations.

[12.20 pm]

**RUSSELL, Mr Christopher John, Director, Government Relations and Communications, Local Government Association of South Australia**

**CHAIR**—Welcome. Thanks very much for your submission and for the papers that you have provided us with. I am sorry we did not give you a lot of time to put your submission together. We subsequently extended the time for receiving submissions, so if you want to elaborate on yours at all, please feel free to do so. I invite you to make an opening statement, if you would like to, and then we will ask some questions of you.

**Mr Russell**—Thank you for the opportunity to be here. As per our written submission, I should make it clear that we do not intend to make a substantive submission, largely because your terms of reference relate to what we regard as the business of state governments rather than the business of our members. Generally we are not in the practice of making gratuitous comments about other governments and we like to encourage that practice from other governments as well. But we do respect the parliamentary process and we were happy to come along, with the encouragement of the committee staff.

There are a couple of comments I would like to make. One is very clear. One of the documents that we have referred you to is the independent inquiry of 2005 which we commissioned. It is the first time, to our knowledge, that local government collectively has commissioned an independent inquiry. That was subsequently replicated in similar ways by our New South Wales and Western Australian counterparts. Tasmania did a shortened process, basically commissioning Access Economics to do a similar financial study. That looked very seriously at a whole lot of financial sustainability questions in local government.

Our first experience with independent inquiries was one of noting that you end up with a lot of recommendations out the other end that you have to deal with in some form. But we have made a substantial commitment and with some support from the state government have set about implementing a program. In part, because the initiative came from within local government itself, we have seen quite phenomenal interest and take-up in relation to a number of the elements of that program. We have developed a series of models, including models for long-term asset management and long-time financial management plans for councils. Our councils are well advanced in putting those together. We are seeing a lot of positive benefits from common definitions and common frameworks being used across councils. They are able to ring up their neighbour and say, ‘I do not understand this,’ and they talk the same language because they are now using a model framework that we have prepared. That has been very positive.

I think our inquiry board were very careful about how they couched the recommendations, because of a fear that the House of Representatives inquiry into cost shifting that occurred in 2003 may have encouraged local government to settle on the sort of bogey of cost shifting as the source of all ills in local government, rather than simply an aspect of things to be dealt with. So one of the very key recommendations in our inquiry was that, whilst there were issues caused by other governments, state and Commonwealth, impacting on local government financial management issues, those could not be solved directly by local government. We felt that the

smart thing to do was to start with the thing that we could control ourselves, which was improving our own management, and that as we continued to work with other governments the demonstration of improved financial management would in fact result in a better response from other governments. There was a sense that other governments wanting to invest in local roads would be much more comfortable if they had a stronger sense that those local roads were going to be appropriately maintained and managed into the future, as an example.

We have set about that process and have invested about \$1.1 million in a three-year program. As I indicated, we have seen very substantial take-up by councils. We anticipate that the level of take-up will be very close to a 95 per cent. We are also mindful that both our inquiry and the work undertaken so far by the Productivity Commission tend to suggest that there are a number of mostly small remote councils which, whatever they do, will rely on external funding to deliver any reasonable level of service to their communities into the future. They are not sustainable on their local rate base.

Referring to the three inquiries, we identified four key areas that we think impact on local government, such as cost shifting. Whilst the House of Representatives inquiry focused largely on cost shifting by state governments onto local governments, there are certainly examples we can identify of Commonwealth cost shifting onto local governments. One of the things we have identified is that, notwithstanding that work, there is still no clear definition of cost shifting. We think the inquiry has raised awareness of the issue. We think that the intergovernmental agreement entered into in April 2006 by the Commonwealth, all the states and our national body has served to again highlight the issue and has substantially increased the focus on any fresh cost shifting. But it has done nothing to address past cost shifting and there are some examples that I could cite where cost shifting has been institutionalised.

One example of that is that our Public and Environmental Health Act requires councils to take reasonable steps to prevent the spread of communicable diseases. So if legionnaire's disease bobs up, automatically there is a responsibility passed on to local government with no regard for whether local government has the resources to deal appropriately with an issue like legionnaire's disease and no guarantees of support from state governments. It happens automatically. There is no active decision that a federal or state cabinet makes; the legislation says local government must take reasonable steps. I am not sure if that is a smart way for governments to manage the emergence of something like legionnaire's disease.

Predating the national intergovernmental agreement, this association established with the Rann government and previous governments in South Australia formal agreements about how to behave with each other and the sort of joint objectives we should set. That has raised the level of communication we have in South Australia on key issues. But cost shifting remains a concern for us.

On external funding for local government—and this is probably apparent to most people—legislatively local government across Australia is restricted to one tax. The way in which we raise that tax has some restrictions associated with it and the Productivity Commission study that is yet to be finalised but is currently underway into local government revenue raising is focusing very heavily on those constraints and what they might mean. Their terms of reference are a little bit constrained too. We think it is very difficult for them to assess revenue raising capacity in local government in isolation from any sense of what local government roles and responsibilities

are, such as infrastructure pressures and those sorts of things. In a sense, it is only looking at half the equation.

**CHAIR**—Who set the terms of reference? Did we do that?

**Mr Russell**—You did. It was Peter Costello as Treasurer. That was one of the outcomes of the Commonwealth response to the cost-shifting inquiry.

**CHAIR**—Yes, that is right.

**Mr Russell**—There are some limitations in that. I suspect it would have been a very much greater task if they had also asked them to look at roles and responsibilities issues. The work that they are currently doing is reasonably impressive in terms of the level of analysis that they are providing to that question, which does not often get looked at at a national level.

**CHAIR**—The roles and responsibilities?

**Mr Russell**—No, the reverse—the revenue raising capacity of local government. At best their draft report indicated that on average councils potentially have a 10 per cent capacity to increase rates revenue. We doubt that from a couple of perspectives, and one is because they are using a theoretical model of the capacity of communities to pay. Our view is that because that is based on incomes, and the rating system cannot be sensibly matched to incomes, local government revenue raising capacity is limited by when the first person gets hit too hard politically for the council to bear rather than the average theoretical capacity of the community to pay.

**CHAIR**—I do not mean to keep interrupting you but doesn't the Grants Commission do that inquiry every year when they divvy out the money? What is the Productivity Commission doing that the Grants Commission does not do?

**Mr Russell**—There is a slight difference. The Grants Commission draft report does talk about the differences in the task the local government grants commissions in each state are given. Essentially the focus of that is analysing the relative capacity of councils to raise revenue for the purpose of dividing up the local government financial assistance grants. There are two points I should clearly make in relation to that. First, the size of the market, unlike with the GST, is inadequate to fully equalise councils. We have a system that is set up to equalise councils and the funding is inadequate to do that. Second, the Local Government (Financial Assistance) Act divides that money between states based on population not on need. Unlike the way the Commonwealth Grants Commission divides the funding between states, local government funding, which is for the purpose of equalising councils, is unequally distributed between the states. So in some states their grants commissions are able to equalise a council to a higher level than in other states. We are strongly of the view that that disadvantages South Australia. Clearly the legislation is there, and until a government wants to change the legislation it will be there. Our view is that there is not a lot of logic in the Commonwealth providing revenue to equalise councils across Australia and then unequally compensating them in other states.

**CHAIR**—That will be a good challenge for the new government; nobody has been game to touch it for a long time.

**Mr Russell**—Certainly we would be encouraging that, and we have been very clear in relation to our interstate colleagues that if both of those issues were addressed at the same time—increasing the bucket and addressing the distribution—then it could be phased such that no state would lose money. The Commonwealth would then be in a position to say, ‘We are fairly distributing that funding.’

**CHAIR**—Good luck!

**Mr Russell**—I never let an opportunity pass without raising those two issues.

**CHAIR**—Good luck to my government colleagues on this committee.

**Mr Russell**—I have mentioned almost all the points. I guess the restriction on local government revenue raising is initially being addressed by the Productivity Commission. There is also the issue of the impact of local government having only one tax. State governments and the federal government have the capacity to respond to economic conditions by lowering one tax and raising another. Local government does not have that opportunity. Our only opportunity is to modify the impact of one tax, and that creates some particular problems for us. One of the things I said to the Productivity Commission inquiry is that by using rebates it would be theoretically possible for a council to turn a property rating system into an income tax. The biggest problem we have with that is that we do not have any capacity to get information on people’s incomes to do that. Our view is that it would be illogical to do that given that there are income taxes elsewhere, and the Local Government Act provides effectively that rates are a tax based on the value of property.

**CHAIR**—What are you saying? How would that work in practice? You would rebate the rates according to income?

**Mr Russell**—Effectively, you would rebate rates according to income. Councils do use rebates in various ways but nowhere near that extensively. I am just making the point that that is a theoretical possibility if we had access to that information. The act does not restrict how councils use rebates. But it would not be sensible. So currently we are limited to one tax and some very clumsy ways of relating to that, certainly in relation to people’s incomes.

My last point is that we did raise with the Productivity Commission, and in our own study, the issue of what I think economists refer to as ‘tax room’. We are limited to property based taxes. The state government also levies property based taxes. As you are aware, and I heard some of the previous evidence, certainly in this state the portion of tax derived from property or property transactions has increased substantially in recent years. We estimate that in around 2000-01 under the previous government in South Australia the state government overtook local government as the largest property taxer in the state. We have done some work with the Centre for Economic Studies and effectively at this stage we do not believe there is any scientific way of measuring the impact that has, which is essentially political. Our politicians may feel that because the take from that pocket of property taxation by state government is increasing they are less able to take out of that pocket. We cannot measure that. We have made that point. They are basically the points as we see them that impact on local government. As I indicated at the start, we do not profess to be experts on state financial management and do not want to pass gratuitous comments about their management.

**CHAIR**—Thank you. I am sure we have some questions.

**Senator BUSHBY**—I know you stated that you do not want to comment gratuitously on state finances, but you have mentioned that cost shifting has an impact. If they are using local government as a convenient way to move some of the costs that they currently wear then obviously it does have an impact on you. It seems to me that local government is the one level of government that has had to, and continues to have to, tighten its belt, so to speak, and run a very lean ship, whereas in the last six or seven years both the state governments and the federal government have notably had growing revenues. You rely basically on external grants and, as you pointed out, a single tax which is a highly visible one from the perspective of those who are paying it and so very difficult to play with. Is the fact that the state government, and the federal government to an extent, has had, for all intents and purposes, a surfeit of funds at a time when you have been facing cost shifting and the lowering of grants in some areas frustrating? Would you like to make any general comment about that?

**Mr Russell**—The simple answer to that is yes. It certainly is frustrating. Because it is so close to the community, local government effectively finds it much harder than other governments to say no. I guess it is difficult for all governments, but the pressure on councils can be very significant, certainly in areas where state or federal governments provide grants and subsequently reduce them. When there is council involvement in delivering a service they are the people who the community comes to on a day-to-day basis in relation to that service when they see the service potentially disappearing.

One of the elements of our study was to make sure that councils are very scientific about that and understand, when they say yes to providing services, the financial impact that has in the long term on their sustainability. We have a significant problem. Infrastructure is a much bigger part of our business than it is of state government and federal government business. My recollection is vague and I should not quote the figures, but effectively the level of focus on infrastructure in relation to our recurrent budget is 24 times that of the Commonwealth and eight times that of the state. So local government's infrastructure business is substantially greater. I saw some Access Economics figures recently which suggest that we actually look after one-fifth of the non-financial infrastructure assets of this country that are in the public holding—which, when we only raise about three per cent of tax across Australia, is a very significant challenge.

**Senator BUSHBY**—I saw a comment—I think it was in the 2002 report; I do not know if it is still current—that you were underfunding infrastructure in South Australia by \$95 million per annum. Is that still current? Or is it a similar figure?

**Mr Russell**—We have not improved that figure. Certainly once all councils complete their long-term infrastructure asset management plans we will have a better sense and be more able to update that figure annually. But infrastructure backlog is not a figure generally that Commonwealth, state or local governments publish as part of their accounts, and it is a difficult issue to estimate. We certainly believe it is of that order.

**Senator BUSHBY**—Given the importance of local government in delivering infrastructure outcomes, that sort of backlog is a concern looking forward.

**Mr Russell**—It certainly is. I think largely one of the things that the data suggests over the past five to 10 years in particular, or possibly going back as far as 15 years, is that local government expansion into a wider range of services to meet community needs has been at the expense of infrastructure. Changes in external funding arrangements have certainly been a factor in that.

**Senator BUSHBY**—Has that been brought about by changing community expectations or by cost shifting or by a combination of both?

**Mr Russell**—I would probably say a combination of both—probably community expectations being the major issue.

**Senator BUSHBY**—So there are new expectations by the community of services, and local government is the only level of government stepping in to meet them?

**Mr Russell**—There are new expectations of service but also expectations of higher standards in service delivery, which are sometimes translated through greater occupational health and safety legislation or child safety requirements or a general rise in community standards that are expected. Generally we do not have a problem with that in local government, other than the pressure it causes on our capacity to provide services. Those issues are not widely recognised in the community as a rise in service standards. Certainly there are significant benefits in, for example, the single workers compensation scheme we run that covers all councils. Our scheme has a dramatic set of graphs in terms of reduction in worker injury and reduction in costs to councils for workers compensation. So there are some benefits to some of those rises in standards. But for a number of them the benefits do not accrue to council bottom lines; the benefits accrue to communities. So there are those sorts of issues.

I would have to say that probably one of the biggest impacts on local government in this state has actually been environmental pressures, particularly around recycling and waste management. Over a period of about seven years, local government's investment in waste management and recycling increased by over 113 per cent, from memory. That is illogical, because, whilst there are environmental benefits in recycling, in this state there are no cost savings. The container deposit legislation in South Australia has very effectively taken those things out of the waste stream, which means that for local government some of the highest value recyclables are not available.

The recycling work we do—which has involved, over the last 15 years or so, taking two extra trucks down every street in metropolitan Adelaide, which is obviously going to come at a very significant cost—has been absolutely fantastic in the reduction of waste to landfill. Our stats in Adelaide are exceptional. But that comes at a very significant cost. The revenue that is paid for those improvements and supported community attempts to improve recycling has come at the expense of infrastructure maintenance. So that is one of those pressures. Potentially local government could say, 'No, sorry, we'll take one truck up your street and we'll bury the waste in landfill and we won't increase your rates,' but I suspect communities would not want that to occur. I also suspect that they do not want long-term degrading of their infrastructure. That is a difficult challenge for all governments but particularly for local government.

The approach we have taken with state government has been very clearly an evidence based approach. The biggest successes we have had have been in establishing long-term funding arrangements. Stormwater is an example that your previous witness referred to. We are very pleased with the outcome on stormwater in South Australia because over about 20 years we saw the state government backing out of any responsibility for stormwater. I have been told by people who were around long enough to remember that 30 or 40 years ago there was an approach that was very similar to the approach for roads. We have a very clear definition and delineation about arterial roads being a state responsibility and local roads being a local government responsibility. Stormwater was similar—the local systems were a local responsibility and the trunk drains were a state responsibility. That was transformed a significant number of years ago into a grant program, so it was: ‘You will become responsible for all of this but we will give you some assistance.’ The grant program stayed static and under the last budget of the previous Liberal government it was halved in terms of the financial assistance provided to councils for stormwater.

The new arrangements have put back in place a different model but one where a state responsibility is recognised, and there is a recognition that the infrastructure we are talking about is 30-, 40-, 50- or 100-year infrastructure and therefore should have the capacity to borrow, not at an individual council level but at a more strategic level, for drainage works which cover more than one council area. We have found that where we have been able to do that extensive, detailed homework—certainly across the whole of metropolitan Adelaide in the case of stormwater—the state government has been willing to recognise issues and come to the table.

One of the challenges that face us is that it is not easy to muster the resources across local government to be able to do a metropolitan-wide study of stormwater requirements and needs and get to a point where you can sit down and convince Treasury officials that there is a business case for this investment. When we are encouraging our councils to take that sort of approach with their communities, I am not sure I can fault a state government approach that says the same thing to us—deliver us a business case for why we should invest in this and we will think about it. The second example would be for community wastewater management schemes in South Australia—

**CHAIR**—Just to clarify: on the regional drainage, are you saying that the state government is now funding that rather than local government?

**Mr Russell**—No, but there is a guaranteed state government input, with indexation, to match local government funding and, where we can obtain it, federal funding, such as for the Gawler River program that is currently underway, which the previous government invested in.

**CHAIR**—So there is a net increase in money.

**Mr Russell**—Yes, and the capacity to borrow, over a 30-year period for a project like that, through a state authority rather than an individual council borrowing.

**Senator BUSHBY**—One of the things I found quite interesting in one of your submissions was the percentage of the public sector workforce employed in local government in Australia compared to other comparable nations. Do you think that if we were able to evolve or if we had

evolved a system where local government undertook more responsibility, as it does in other places, that would be a more efficient overall system?

**Mr Russell**—I believe that it would be, although I would probably put some caveats on that. One is that, in South Australia, we have certainly found that a series of issues are more efficient when centralised and others are much more efficient when decentralised. Generally, we support the subsidiarity principle: that the closer you are to the communities that you are affecting with decisions that are made, the more effective it is. However, in South Australia, for example, there are a series of initiatives, which largely have been driven by the Local Government Association, that take back-office council functions and centralise them across the state. We have the Local Government Finance Authority, which borrows and invests in bulk for councils. Another benefit from that is that we have no councils exposed directly to the subprime mortgage challenges arising from the US. We have a single workers compensation scheme that, again, has rates that are significantly lower than WorkCover's published local government rates, because we have been able to effectively employ risk management skills at the state level, which many individual councils could not do, and provide benefits, models and frameworks for all councils to follow.

Currently, we are investing substantially in identifying more areas for shared service opportunities, because we think there are greater opportunities there. I am thinking of your previous witness's comment about having Commonwealth, state and local government officers searching for rabbits. I am pleased to say that, in local government in South Australia, we do not have officers searching for rabbits. The resolution of the natural resource management functions saw arrangements that were managed by local government placed into the NRM situation. Some of our councils have concerns about whether the rabbits or the weeds are being controlled effectively now, but we are very careful about not duplicating that function. We would not be advocating rushing to another country's model of substantially increasing local government's role without giving careful thought to how such systems might be put in place and deciding what is more effectively and efficiently—

**Senator BUSHBY**—For starters, you need a guarantee of funding involved to be taking it on.

**Mr Russell**—centralised and what would be the long-term funding arrangements. However, I suppose our biggest concern is that this is happening on an ad hoc basis and the community tasks that local government is being given or being left to pick up are increasing substantially.

**Senator BUSHBY**—Without the consequent funding.

**Mr Russell**—That is what we have seen over the last 20 years. We have no sense at all that that will change. Communities and both state and federal governments believe that local government is best placed to deliver a lot of services, but it is happening on an ad hoc basis and not a planned basis. Our work around financial sustainability should put local government in a much better position to say, 'Here's our outstanding infrastructure backlog; no, we can't deliver that service and remain sustainable into the future, unless our underlying financial position is modified.'

**Senator BUSHBY**—Given that your responsibilities, over the last 20 or 30 years, have been added to, as you say, on an ad hoc basis—I am just coming back to that percentage of the public sector workforce in local government—do you have any figures showing the trends of the

percentage of local government workforce vis-a-vis state and federal? I would be interested to see whether the actual percentage has been growing as your roles have been growing, as I suspect that they probably have not been.

**Mr Russell**—My answer to that would be no, although I would have thought the ABS could provide data that might show that. Certainly, the data around local government employment over the last decade that I am aware of is that it has gone up and down but not significantly changed. We are delivering a wider range of services on a more efficient basis because we are sharing more services. In some instances there have been amalgamations—that occurred in 1996-97—and councils have been more efficient and have identified more efficient ways of delivering services to get better results.

**Senator KIRK**—Thank you very much for your submission, Mr Russell. I am interested in the idea of greater harmonisation between the activities of the three spheres of government. You talked about this in the submission that you made to the House of Representatives almost six years ago. I understand that you have produced a brochure: *Future directions—smarter governments working together*. The submission says that it is attached as appendix 3, but it is blank. I would be interested to see that but also to get some sort of update from you as to where you stand on this position.

**Mr Russell**—Our position on that would not have changed. We believe that there are many opportunities where smarter arrangements between the three spheres of government can deliver better results for communities. My sense is that, as per my previous statement, I cannot see the trend in the changing roles for local government continuing to increase. It will be highly mindful of the resource issues behind that. I think there are examples which may well challenge our constitutional structures but where state and Commonwealth systems could run more efficiently and effectively if we actually sat down and sorted out new arrangements and ways of doing things.

I am mindful, for example, of some of the arrangements in Germany, where you can register your car at your local council office because they have an arrangement with the provincial government structure and those things happen easily, rather than the provincial government having to have a specific office for that. There are similar arrangements in Japan, where some of those things are sorted in different ways. I think there are some challenges for us. I am often frustrated that we are only approaching those in a piecemeal way, but I recognise the challenges of doing it on a more wholesale basis.

**Senator KIRK**—It seems to me that, arguably, there is a role for local government to participate in the COAG process. I wonder whether or not you have given any thought to the fact that a lot of the ideas that you have raised could be thrashed out and better considered in a more formalised sort of environment.

**Mr Russell**—I happened to spend last week with the board of the ALGA in a national strategy meeting. The president of the ALGA being a voting member of COAG, in the current reform environment, has presented us with a series of challenges. There are working parties developing everywhere, and the ALGA president has put up his hand to be involved in a number of these key working parties. That presents a significant challenge for both state governments and us in effectively participating in some of those working parties. If we are unable to participate

effectively in some of those formal processes then either opportunities will be lost or state and federal governments will make decisions without serious consideration of local government input. My recollection is that having the ALGA president as a full voting member at COAG meetings stretches back to when COAG was first established by Keating.

But, yes, we have found that more formalised processes, largely with state government because we have more practice at that, where there are formal agreements such as the current State-Local Government Relations Agreement between the LGA and the Premier, are one of the keys to establishing more effective relationships. There is a committee currently called the Minister's State/Local Government Relations Forum. It involves several state ministers, several members of our executive and a number of other members. That has been used more as a problem-solving vehicle for key issues, not as the fulcrum for every state-local issue, to monitor areas where we are seeking to develop. That body played a key role in resolving the stormwater issues over a number of years.

Yes, as a matter of principle I would absolutely agree with that. Having sat through the ALGA board strategy meeting last week, I fully understand the resource challenges that presents us with. ALGA being a federation of the state bodies, that presents us with some real challenges in making sure that we provide substantial input into that process, along with existing ministerial councils. I know, for example, that ALGA staff were, of course, here with the ALGA president for COAG yesterday, and today they are in Brisbane for the Local Government and Planning Ministers Council meeting. So, yes, there are some challenges there.

I might just go a step further. Because the primary focus of local government is at a state level—as it effectively works within state legal frameworks—local government invests substantially in state local government associations and the ALGA, but the bulk of that resource is at the state level. One of the issues that we are looking at is how we more effectively support ALGA in that process. As I recall the figures, potentially the investment by local government in state local government associations and ALGA is about \$100 million a year and 300-odd staff, and less than \$3 million of that and fewer than 14 staff are based in Canberra, so a very substantial amount of those resources is at the state level.

One of the key discussions that we have had is about the fact that if the nature of the relationship between the Commonwealth and the states is going to change then, to match that, the nature of the relationship between the ALGA and the state associations needs to change as well. Certainly we find often that the nature of the relationship we have with the state government in South Australia is much more effective for us than what we see in most other state arrangements.

**CHAIR**—Like Queensland, for example.

**Mr Russell**—Like Queensland, for example—certainly in some of the more recent events there. In relation to other states, I certainly would not regard our relationship here in South Australia as perfect but it has substantially improved on what it has been in the past here and on what we see in other states.

**Senator FIELDING**—I am going to come back to the tax issue and the property base of tax for councils. Obviously one of their major revenue-raising avenues is through the rates, which is

basically property based. I think that in your submission, which is part of your Productivity Commission submission, you make a note that there has been a sizable increase in state revenue based on property—this is for the South Australian government—from \$727 million in 2001-02 to \$1,000 million in 2005-06, which is basically a 53 per cent increase. I think you are trying to make the point that the amount of revenue that they are getting from that is increasing quite significantly, and I think local councils do not have that same ability. Would that be correct?

**Mr Russell**—I might start by saying that there is a fundamental difference between, for example, how the state government raises land tax and how councils raise council rates. The state government, through its legislation, has the capacity to set a rate in the dollar and leave it. It does not need to touch that rate in the dollar the next year or the year after, in the same way the Commonwealth can set an income tax rate and leave it. Local government's legislation does not allow it to do that. Every year councils are required, firstly, to set their budget, and they must consult with their communities in the process of setting their budgets. They are then required to adopt the latest annual valuation for their area, and then they adopt a rate in the dollar that divides the amount in the budget required from rates with property owners. So every year councils make a decision to set a tax rate. For almost every South Australian council, the tax rate is lowered every year so that they do not gain a windfall from property growth. They only raise as much as their politicians determine, in their budget, that they need to spend the following year.

Theoretically, a council could make a decision every year to leave the rate in the dollar the same and therefore their growth would accrue at the same rate at which property valuations grow, which would mirror what happens with land tax. But, politically, councils obviously do not make that decision. They are highly conscious of a range of impacts on communities, how much they are prepared to pay and what increase they are prepared to make one year to another.

Land tax, which I have mentioned as one example of the way in which state governments raise revenue from property, fixes a rate which is only changed when the government decides it wants to change that rate. That has a positive revenue impact when land values and transactions are increasing; it also has the negative, that when that slows down the growth for state revenues is not as great. Local government has that capacity, as I suppose the state does, but its more practised arrangement is annually to review what it requires and set that rate in the dollar.

We have a graph which I am sure we included in our evidence to the Productivity Commission—in fact I think they replicated it in the draft report—which shows growth in local government rates revenue in total against the growth in residential property values across the state over the period 2000 to 2005 when we had a period of property boom. The percentage growth in property values goes up almost like a bell curve and the local government revenue is a slightly inclined line, but may as well be almost a straight line across the bottom. State land tax revenues would have followed that bell curve up, and I think the data you refer to probably picks up some of that.

That is a simple difference but there is a common community perception that, because my individual property value rises and my individual rates bill rises, the council is getting a windfall growth. What they do not see is that there is someone else whose property value goes up by less than the average who actually may have a reduction in their rates. We identified that, during the 2001 to 2004 period, less than five per cent of properties across metropolitan Adelaide received a

rates increase above 20 per cent but there were about 12 per cent of ratepayers who actually had a dollar reduction in their rates bill. One of our frustrations is that none of those people ever ring up talkback radio. They believe someone has made a mistake and if they expose it we will knock on their door and ask for an increase. That is a public misconception that we have worked hard to deal with. In fact the misconception through that period was one of the reasons that we established the independent inquiry into local government financial sustainability. We wanted to be clear on the public record that councils were not wallowing in funds from windfalls and that in fact they were trying to deal with substantial infrastructure backlogs.

**Senator FIELDING**—Correct me if I am wrong but one of the key points is that it is very hard for the revenue base to cover the ongoing capital costs, which are increasing. There is this potential gap that is coming. The point that I think you are trying to make is that the pie does not grow. I would like to look at some of the figures you have for council rates as a whole. You provided that in one of the tables. My calculation, from looking at the table on page 11 of the Productivity Commission report, is that from 2001-02 to 2005-06 total local government general revenue rates have gone up by 33 per cent. The growth in state government total property based taxation revenue over that same period was 53 per cent. There is no doubt about the state government taking more but I still think 33 per cent is fairly high. I am not trying to justify why you would not do it; I am just saying that it is a heck of an increase anyway. I am not getting down to individual properties—take that out of the equation; I am just talking about the figures that you have provided. Total local government general rates revenue over that period has risen by 33 per cent. That is a pretty sizable increase.

**Mr Russell**—You are right about that, although there are a series of things that I will say in response to that. One is that divided across five years that is about six per cent a year. Access Economics essentially formed the conclusion that between one and two per cent above CPI was a no policy change budget for local government. Looking at the cumulative impact of those changes, I would assume one of two things. One is that councils were beginning to recognise the infrastructure backlog that they had and to realise that they desperately needed to maintain their infrastructure or it would cost the community more in the long run. Secondly, there is that ongoing demand for increasing services. Certainly, one of the things our inquiry noted that local government does not tend to do well is document increases to services and increases in efficiencies. We are aware local government does increase services and efficiencies. I suspect state and federal governments make more noise about efficiencies they create or intend to create. My sense is that local government actually delivers more in that regard but tells people less effectively what it is actually doing. So I would be saying that those increases above CPI plus the estimates from Access Economics of what local government impacts are are supplemented by efficiencies that have occurred through that period as well but certainly would not be fully addressing infrastructure backlogs and would be associated with service improvements or standard improvements that are less easy to measure.

**Senator FIELDING**—Mr Russell, I am certainly not trying to make your case any harder, because I really feel for local councils that are trying to juggle the capital and infrastructure costs that are increasing. I am trying to help a little. General rates revenue has gone up, as you were saying—six per cent roughly. I have done calculations. So therefore it is even harder to try to get even more money through the rate revenue situation. In actual fact there needs to be something else happening externally, because there is only so much you can do. You have already put the

rates up 33 per cent and there is still a sizeable forthcoming shortfall for a lot of local councils trying to cover their capital and ongoing costs.

**Mr Russell**—I think that is true. The other issue is that, as I understand the way economists present it, as communities become wealthier they not only want more private goods but they want more public goods as well. So the demands from communities continue to increase. I talked about the recycling and waste example. A council in the metropolitan area of South Australia that is not providing kerbside recycling in split bin systems is regarded as a pariah today. In fact I suspect we have only one left in the metropolitan area that is not delivering that. The community and media reaction to not meeting those expected standards is far worse than increases in rates. Certainly councils have a lot of experience of relatively low feedback from the community regarding rates increases that are probably seeking to push the envelope in the local government world—they may be quite small in relation to state and federal taxation because of a lack of visibility of transactional taxes. But local government is legally required to send you a notice every year indicating the total tax amount that they are going to take off you. That is highly transparent. I am loath to argue against that; that is a virtue in a sense. But it does challenge us in relation to meeting those infrastructure costs.

The other point is the Productivity Commission inquiry draft report suggests urban councils at least can push the envelope much further. Our argument with their draft report is: that is very theoretical. They are suggesting that urban councils at the moment are on average only rating at 90 per cent of what they could in terms of the capacity of communities to pay extra. We think that is probably overstated and we do not think it is practical. So our sense would be the choices that councils are making are about the maximum politically acceptable, keeping in mind the financial sustainability and infrastructure backlog issues that are there.

**Senator FIELDING**—I have one closing comment, if I can.

**CHAIR**—We are well over time and there are three others yet to go, Senator Fielding.

**Senator FIELDING**—I am just wondering if you have a very quick response to the view that there is one vote across the COAG table for local councils. I am wondering whether that is doing it justice. Do you have any comment on that at all?

**CHAIR**—Good question.

**Mr Russell**—Having never sat in a COAG meeting, I would probably say no. It is not adequate.

**Senator FIELDING**—It is not a trick question, though. It is a genuine question.

**Mr Russell**—I guess my sense also is that, if the arrangements between state and local government associations and state governments in other states were anywhere near the level of communication and arrangements we have in South Australia, that process would work more effectively at the national level. In a sense, that might be the pinnacle, but there is a bigger iceberg below that has more problems with it than at the COAG table.

My sense also is in those sorts of forums that I have attended, including some ministerial councils, generally it is not voting numbers around the table that make a difference; it is generally approached on a consensus basis. Therefore it needs the parties to see and understand the issues to come to the right consensus.

But, yes, I think for that process to work effectively would require much more effective relationships in many other states. Certainly there are a lot of state-local relations, initiatives and agreements in other states and my sense is not all of them are as effective as here. Ours is not as effective as it could be and there are states such as New South Wales in particular and Queensland which had some very effective relationships until the recent decision to tear that up and impose forced amalgamations, which are still being played out. Whilst those relationships differ so dramatically state to state, it is difficult to see the national process working effectively, unless there are some across-the-board Commonwealth initiatives that look more seriously at new ways of doing business involving local government.

**CHAIR**—It is a question of resourcing too. It was always my experience that local government was underresourced to compete with state and Commonwealth bureaucrats at the ministerial council meetings that I was involved in.

**Mr Russell**—I would have to say my experience in the Local Government Association here is that, prior to our first agreement with a state Premier in 1990, we wasted a lot of resources competing with state governments and in conflict models. The capacity to actually invest in constructive partnership arrangements and in leadership of local government when you do not have to worry so much about those conflict arrangements is substantial. I really feel for some of our interstate counterparts that have to respond to conflict models.

**CHAIR**—It is slightly off the terms of our inquiry, but at the national level there is one ALGA representative dealing with seven state administrations of local government. So to have a national perspective I think is a challenge to local government.

**Mr Russell**—I think it is, but I would also say that state associations have a substantial amount of resources and we are entering a process of trying to respond to the COAG reform agenda, and that will demand greater input from state associations—

**CHAIR**—That is good to hear.

**Mr Russell**—and it will expose lack of relationships between state and local governments at a collective level. We are having conversations with state officials in South Australia about COAG arrangements that do not appear to be occurring in other states that seem likely to lead to a deficient response at the national level.

**Senator FORSHAW**—I should put on the record that my wife is a councillor on Sutherland Shire Council so I am pretty conscious of the demands placed on councils and of being the one at the end of the day that gets most of the direct criticisms or complaints from the community for little or no reward. Do you have rate-pegging or rate-capping in this state?

**Mr Russell**—No, we do not. We also do not have any significant controls on borrowing and investments for councils.

**Senator FORSHAW**—What has happened with the stream of income or revenue that councils get from fees and charges? Could you quickly comment about whether councils are looking to increase the range? For instance, if I could use a local example, in New South Wales some councils have looked at parking charges particularly on the coastal areas and obviously are looking at cost recovery more and more in the provision of services that previously may have been either free or heavily subsidised.

**Mr Russell**—My understanding is nationally the revenue that councils have derived from fees and charges has increased over time. I know the Productivity Commission's analysis is that for services that can be identified as private goods, that is a good thing. It provides greater economic indicators and efficiencies around how you do that. In South Australia local government provides less private goods and more public goods. We are less involved in electricity supply, water supply and some of those big business activities that New South Wales and Queensland councils in particular are involved with.

**Senator FORSHAW**—Outside of the metropolitan area in New South Wales.

**Mr Russell**—Yes. As a result, the portion of income we recover from fees and charges is lower than in most other states. We commissioned the South Australian Centre for Economic Studies to do some work on that. I think it predated our submission to the cost-shifting inquiry so it would have been around 2002. Their view was that they could not identify any substantial service areas that local government had that were private goods that would lend themselves to charging greater fees that we are not already doing. It also raised some questions about service areas such as libraries where there are arguments sometimes put that there are private goods in libraries as well as public goods. Our view and the legislative approach in South Australia is that they are predominantly public goods. We have observed in places like New Zealand where some councils made a choice to say, 'No, they are private goods. We will charge a fee.' In most of those instances my understanding is that councils have reversed that over time simply because the fee-charging exercise is almost costing more money than the benefit in doing it. So there are some borderline issues but our sense—

**Senator FORSHAW**—The capacity to do it is limited in any event. That is what I was trying to establish.

**Mr Russell**—Yes. There are some limitations around it.

**Senator FORSHAW**—One complaint that I have heard—obviously directly experienced but also on a wide basis across councils—is the increasing competition from the private sector in the delivery of services which a lot of local government authorities deliver as well. One area was child care. Without wanting to open up a political debate—and again I speak from my local New South Wales experience—we have seen an increasing tendency for community based childcare services to be put under a lot of financial pressure. The awarding of government contracts, support and approval licensing for private sector operators has increased. I have heard councils complain that they are being put in a position where they are still expected to deliver community based childcare services, or similar services in a related area, but they are not getting the degree of support—financial and 'moral'—for community based services as the private sector. If a private sector operator goes under—which could have potentially happened with ABC—the

community based sector then has to pick up the tab. Do you have a comment on that? Is that a concern that you have seen?

**Mr Russell**—In South Australia that is not the case. I think there are only six councils that own childcare centres; there is not a substantial history of local government service provision in this state. Secondly, during the Kennett years when compulsory competitive tendering was imposed on Victorian councils, we analysed and looked at data on the proportion of works that were contracted out in Victoria versus South Australia, and we were substantially ahead of what was occurring in Victoria. I do not want to make any comments about what was appropriate in Victoria and what occurred there but we certainly formed the view that you could not justify that based on what happened in South Australia. The sense of the issue that you are raising from a New South Wales point of view has not been something that has been on our agenda in South Australia.

**Senator FORSHAW**—I will ask the \$64 million question. You mentioned that you have only one form of income or tax, which is rates, compared with state and federal governments. What other forms would local government in South Australia envisage, if there were an opportunity in the future to broaden the revenue raising base? I am conscious that what you say could be misinterpreted, but if you are raising that as a concern, the issue then becomes: what should local government be able to do to raise revenue other than through rates?

**Mr Russell**—That is a very difficult question. My easy answer is that the Local Government Association does not have a policy position in relation to that. Issues that have been raised and looked at recently include whether, for example, a portion of motor vehicle registration revenue should be returned and hypothecated to roads. We would be putting our hand up to say that local roads should be part of that.

**Senator FORSHAW**—Similarly with water, I imagine?

**Mr Russell**—Although it is frustrating from a point of vertical fiscal imbalance and accountability, when it comes to additional revenue it will require state parliament to change a view to deal with something like that. It is not an easy question. No government likes introducing a new tax. A more effective mechanism we would see to address those issues is either through financial assistance grants or other forms of funding that are more specific to particular outcomes.

**Senator FORSHAW**—I was not trying to trap you into saying local government needs a new tax. I do not think there are too many councils around the country that would be able to say that here.

**Mr Russell**—On the issue of motor vehicle registration, one of the options put forward is that we have a legislative amendment that allows local government to place a levy on top of what is there but it would be a state-wide levy and the funding would be redistributed. If that were an option we would be happy to wear the odium for it and to be responsible. But it is a bit like GST; you end up with the Commonwealth raising it and the states spending it. And even though you can say that as often as you like, you do lose some of that accountability.

**Senator FORSHAW**—In South Australia can councils levy—is it section 97 or something—developer contributions? These are where developers have to pay a particular levy which goes to councils and can be used. There is a debate in New South Wales at the moment. The minister wants to—

**CHAIR**—Do you have any attractive staff in your councils, in the planning area?

**Mr Russell**—I will not go in that direction.

**Senator FORSHAW**—This is a serious question. It is a substantial source of revenue which I believe is used for very good purposes. There is a move afoot in New South Wales by the minister to try to have greater control over those funds and essentially stop councils from—

**Mr Russell**—I could talk for a very long time on that but the Productivity Commission draft report data shows that South Australian revenue from developer contributions is the lowest in Australia. We think that is a problem but the arguments of some sectors in New South Wales that developer contributions are too high seems to be getting more of the airplay at the national level. Effectively what that means is that in South Australia existing ratepayers are subsidising to a greater extent than is reasonable the new infrastructure requirements that are going in place.

**Senator FORSHAW**—Particularly if you have state governments pushing for higher urban density.

**Mr Russell**—I know there is an argument, and I believe it is accurate, from industry and the development sector that there is a point at which that is too high. I am sure that is the case, but we are nowhere near it in South Australia. We are at the other end of the spectrum. We are in reverse. The reality is that that infrastructure needs to be put in place. In South Australia, in places where high growth is occurring developers are voluntarily paying developer contributions because the infrastructure needs to go in. Because it is not a regulated model there is an inequitable result. If you happen to have very high development in your area, for example in Mount Barker, developers are happy to pay development contributions to see that investment in infrastructure. If you are in another council area that does not have that level of development, developers are not so willing to pay the contribution and the ratepayers are forced to subsidise the level of development that is occurring. That seems illogical to us.

**Senator FORSHAW**—The issue is that there is concern about the state government getting control of the funds.

**Mr Russell**—Certainly on that issue I am happy to say that in a raft of areas where state government infrastructure is concerned developers do make contributions to the state government but the state government has been reluctant to increase local government's capacity to recover developer contributions for local government infrastructure.

**CHAIR**—We are grossly over time. I apologise to Mr Anderson, who has been waiting patiently.

**Senator CHAPMAN**—I noticed in your paper in the Productivity Commission's submission that you refer to the Financial Sustainability Review Board report done for you in 2005, and you

were acknowledged for leadership in that through a national local government award in 2006. Are there any lessons for state government financial management that can be drawn out of that report in relation to local government?

**Mr Russell**—I will go back to my initial point that we do not hold ourselves out to be experts in state financial management. I think the simple answer would be yes. In fact, in South Australia the state has made available to us a lot of its internal Treasury information about asset valuation and a lot of those internal mechanisms to enable us to take anything we want from their systems. I suspect there are a number of elements in terms of things that we are developing that the state is interested in or needs to approach in a different way because state government systems are different. My sense is that the underlying principles are the same. Certainly the approach Access Economics took to defining financial sustainability and those issues is, again, similar at the Commonwealth level. The issues that are different are recognising, for example, that much higher level of focus in local government on asset management and infrastructure than in other governments and understanding those differences. But the short answer, I think, is yes.

**CHAIR**—In your submission to the Productivity Commission you raised, and you have raised it here as well, that local government infrastructure needs to be replaced over the next 10 to 15 years. There is a backlog in local government infrastructure. Before the election I know the ALGA approached our side and, I assume, the Labor Party too about getting a major boost to federal government funding for infrastructure. I have lost track with what happened to that. Did the current government make a commitment and, if so, where is that at? Secondly, who should be responsible for local government type infrastructure? It is beyond the financial capacity of local government. Should it be state government, should it be federal government, and why?

**Mr Russell**—I think I will pass on the latter question, other than to say very clearly there is a vertical fiscal imbalance. For infrastructure it is even clearer than for operational expenditure: the Commonwealth has the bulk of the revenue and local government certainly has greater responsibilities than it can carry out. My sense is—and it is one of the things that we are pushing through our financial sustainability work—that councils need to make conscious decisions about what infrastructure can be maintained. There is a point at which, certainly for some of our smaller remote councils, we need to be saying to the Commonwealth government: ‘If you are not able to assist through financial assistance grants, or other ways, in doing that’—and I guess I say ‘Commonwealth’ because they have the greater access to revenue—‘then our community will be closing down slowly.’ That is a simple fact. In a number of instances and a number of funding mechanisms, it is only Commonwealth revenue that can maintain some of those communities at a reasonable standard.

**CHAIR**—That is interesting. As you rightly say, you cannot comment on state or federal government, which is really the terms of our inquiry, but it is an interest response—a spontaneous response, perhaps—that the Commonwealth should be responsible because it is the one with the money.

**Mr Russell**—I suppose it would be the easiest thing in the world to me to say that state governments have revenue too; if they closed a few schools and hospitals here and there they could provide more revenue to local government.

**CHAIR**—Or closed a few \$42 million new headquarters—

**Mr Russell**—Yes, I am sure the Commonwealth could say that about states. But just going back to the basic vertical fiscal imbalance, states and local governments are responsible for most of the on-the-ground services for communities but the federal government raises most of the revenue in Australia, and there are some efficiencies in that as well. It seems to me there is going to be an ongoing need for federal revenue to be redistributed down to state and local government. I might make, and underline, my final point: that if that revenue was enough to fully equalise councils across Australia, and if that was managed in a way that was equitable between the states, this country would be a lot better off nationally.

**CHAIR**—On the first part of my question, just a factual one: was any commitment made? I am not even sure whether we made a commitment.

**Mr Russell**—No, neither party made a commitment in terms of what our national body was seeking. In relation to the new government, clearly they have made a commitment to establishing Infrastructure Australia, and one of the seats on the council for the body is someone with experience in local government. The membership of that has not yet been announced, that I am aware of.

**CHAIR**—There is no money in that, though.

**Mr Russell**—Yes, we are yet to see what that will translate to in terms of potential funding.

**CHAIR**—There is no money in Infrastructure Australia, but you have answered that factual part of my question, that no commitment has been made. Thank you very much for a submission that was not directly involved with our inquiry; it has been very, very interesting and I am sure all the members have benefited. Thank you very much coming along and for sharing your expertise.

[1.40 pm]

**ANDERSON, Mr Geoffrey More, Private capacity**

**CHAIR**—Mr Anderson, our profuse apologies for keeping you waiting. I do apologise.

**Mr Anderson**—I shall tell my students when there is a gap in their lecture next Monday that it is all your fault.

**CHAIR**—Please do. We plead guilty and please apologise to your students. Thanks very much for making the papers available to us. There is some very interesting material there. Would you like to make an opening statement?

**Mr Anderson**—Thanks for the opportunity to meet with you. My interest in what you are undertaking stems primarily from my role at Flinders University and my involvement in an Australian Research Council funded project which is being led by my colleague Professor Andrew Parkin which is entitled *Regulatory federalism and public policy: the transformation of Australian intergovernmental relations*. The focus of that research is primarily but not exclusively on the Howard government to evaluate the changes in Commonwealth-state relations and to investigate and document what has been happening over that period. As an adjunct to that research, I am particularly interested in the way in which the Commonwealth has attempted to regulate borrowings by state governments and, in particular, the move from a system based on formal rules and agreements to one governed by the disciplines of financial markets. I should add my interest also stems from the role I played as an adviser to a former Premier of South Australia, John Bannon, during the period that these changes were taking place in the 1980s and briefly in the 1990s.

I am balancing timetables of teaching and your committee's work. I have not provided a specific submission to the inquiry but I have provided a number of papers which I think are relevant. The first is a paper published in the *Australian Journal of Political Science* by Professor Parkin and me which sets out in broad terms our argument that the changes in Commonwealth-state relations under the previous Liberal government can be best described as regulatory federalism which further constrains the economy of the states and obviously has implications for state expenditures. That paper also touches on what we see as the contradictory impact of the goods and services tax on fiscal federalism.

The second, which is yet to be published, is a chapter specifically for a book on the fourth term of the Howard government and looks at the acceleration towards greater central control in a range of key policy areas during the fourth term of the previous government. The third, of which I am the sole author, may be of most direct relevance to the terms of reference as it concerns changes in the regulation of borrowing by state governments to which I referred earlier. Perhaps I could just take a few moments to deal with that one.

Government borrowing occupies a particularly unique position in the history of our Federation, indeed it has been at the core of two of the major constitutional crises of Federation in the 20th century, for both Jack Lang and Gough Whitlam. The deregulation of world financial

markets in the mid-1970s to the 1980s and the pressure on state governments to borrow money to fund an early infrastructure boom, coupled with the rapid deregulation of the Australian financial system following the floating of the dollar in 1983, put great strain on the agreements which had governed the level of borrowing by both the Commonwealth on behalf of the states, through the Loan Council, and borrowing by the states' own authorities. All this was happening at a time when the Commonwealth was attempting to significantly reduce the overall public sector borrowing requirement. I should add there is an interesting academic debate about whether that was a good idea but the fact is that at that time there was enormous pressure from the Hawke and Keating governments to reduce government borrowing.

It is fair to say that most of those arrangements were failing, particularly the so-called global limits where the states agreed to limit their borrowings to a global limit. States were borrowing and conducting transactions which effectively amounted to borrowing outside of the Loan Council. Slowly, by the mid-1990s those agreements had been replaced by a system in which the states were responsible for their total borrowing within financial markets, which was specifically designed to increase the market scrutiny on the fiscal and debt management of the individual states.

Alongside those changes were significant reforms in the way states presented financial information, which largely were driven by New South Wales Premier Nick Greiner. He had cross-party support, but I think Nick Greiner deserves acknowledgement for the efforts he put in to increase the transparency of state accounts. As a result, today the level and purpose of state governments' borrowings are scrutinised by the institutions who buy and sell government paper. Most importantly, and very publicly, they are scrutinised by the international credit rating agencies, of which Standard and Poor's is probably the most well known. I am not suggesting that credit rating agencies and the ratings they issue are always without problems. The current subprime crisis in the US is evidence that individual ratings and the information on which they are based need to be very closely scrutinised.

However, given the transparency inherent in the uniform presentation framework which governs the presentation of financial accounts of the state, the scrutiny of the rating agencies of state debt can be assumed to be reasonably effective. That uniform presentation framework is based on the Australian Bureau of Statistics Government Finance Statistics framework, and states report against rules set down by the ABS. The rating of each state is based on a number of criteria, which include the profile of the state's debt, in particular whether the debt is incurred for infrastructure and economic development or to support recurrent expenditure. There are a number of other criteria that they use, including the ratio of interest revenue and so on. I think it would be difficult, given the scope of the criteria used by the rating agencies, for states to be profligate with debt and maintain their AAA ratings or to escape public comment if that rating was under threat.

This raises the question of how relevant AAA ratings are, which I think somebody mentioned before. It is an interesting argument, but the critical point I would make is that, politically, the AAA rating has come to hold great symbolism and become of great importance, particularly in this state, although all state treasurers place the maintenance of the rating at the top of their priorities and their list of achievements when they bring down their budgets. Equally, treasurers usually refer to the approval of the rating agencies of their debt management. I would add that the political environment since the 1990s has been characterised by the drive to reduce debt. In

part, that was driven by the belief that to do so would provide the electorate with evidence of financial competence. I think that was particularly the case in this state in the wake of the State Bank problems of the 1980s and in Victoria in the wake of their problems. However, all other states, even those who did not have major financial issues, have relied on their AAA rating as a shorthand measure of saying, 'We're financially competent.' The simple point I am making is that that has become important. Any suggestion that it is at threat is equally politically important. Also, low debt matched the economic orthodoxy of those times.

In recent years, the pressure to renew infrastructure and provide new infrastructure for economic development has seen the pressure for zero debt or near zero debt to modify. Increasingly, the rating agencies have been at pains to point out that they do not necessarily follow an approach of no debt whatsoever. I think we saw that in New South Wales and Victoria last year, when both states announced major capital programs and the rating agencies came out broadly in support of that capital expenditure. They made the point in both cases that their overall financial position could support greater borrowings. Of course, the Loan Council has not totally vacated the field: states have to agree among themselves at the Loan Council for their allocation of the amount they are going to borrow, which is a methodology that now takes account of transactions that are not strictly debt but nevertheless have implications for the amount of risk states take on. In short, they look at the overall financial requirements of the states rather than their formal borrowing.

Returning to the broader context of federalism, I would argue that state debt is difficult to separate from state responsibilities. The last decade has seen a move for more Commonwealth control in a range of policy areas, particularly education and health, although the traditional responsibilities of the states to provide infrastructure through which the service is delivered essentially remained unchanged. I think the states are in exactly the same position that the previous witness discussed local governments as being in: there is more pressure for infrastructure in our community. Traditionally, this infrastructure has been financed by debt. I do not think anybody has really suggested that it could or should be financed entirely by recurrent expenditure. In short, I think the idea that states have zero debt, as does the Commonwealth, is a fanciful notion.

The other point I would make is that what we have seen over the last decade—or perhaps the last two decades; certainly since the 1980s in a more deregulated economy—is the move by governments to look for market mechanisms to regulate activity. In a sense, it has become a part of federalism. The Commonwealth is increasingly looking to the market as a way of regulating major issues. Water is a classic example. We are now creating water markets and looking to water trading as a way of dealing with allocating water. Of course, we are about to face a major change when the Garnaut report comes out. It is quite clear that the core of that will be emissions trading as a way of dealing with climate change. Interestingly enough, borrowing was one of the first areas in which governments looked to the market and looked to rather strictly regulate to allow the market to regulate—the thrust of the paper that I have written. There are many implications from that. There are implications for the way state governments operate and give priority to different sorts of expenditure. Nevertheless, overall we live in an environment now where it is far more difficult than it was when I worked for government for the states to do what they like with the chequebook.

**CHAIR**—Thanks very much for that and for making your papers available, which even those of us who are not particularly skilled in this area found very, very interesting and informative.

**Senator FORSHAW**—Thank you, Mr Anderson. You just covered in your comments a couple of issues that I was going to ask you questions about, particularly deficit versus surplus budgeting—where it became a holy writ for a lot of state governments to make a virtue of saying that they were budgeting for a surplus and seeking to reduce or eliminate debt. I am not an economist, but I think many would argue that one of the problems, as is the case in my home state, is decaying infrastructure. In many cases it was built in the postwar years, 60 years ago now. Rail, roads, hospitals and so on are in great need of replacement or upgrading, and the government is facing serious issues about how it tackles those demands. You mentioned credit rating, which I was also going to ask you about. Someone said to me the other day that state governments should not be worried about losing their AAA rating: they go down to AA and at the end of the day it does not really make a lot of difference—but politically it does. Is that the thrust of what you are saying?

**Mr Anderson**—It makes very little difference in terms of the amount of interest they will pay. If you have a AAA rating, you are going to get a better interest rate—that is the theory. I am not sure of the exact numbers, but the difference between the AAA and the AA is something like 15 basis points; it is not a lot. There is no question that the economic value of the AAA rating is probably overplayed, but in a shorthand expression of financial competence and a sound balance sheet to overseas investors, who have difficulty knowing where Adelaide is, it has significant symbolism. I would agree with you that the political symbolism of the AAA rating probably far outweighs its economic advantage.

**Senator FORSHAW**—In particular, the debate is about governments looking for ways to privatise. The political argument is, ‘We can use these funds better to provide hospitals, roads et cetera.’ That is in some ways one of the key political arguments about electricity privatisation in New South Wales. Do you have a comment about that not from a political point of view but from a financial management point of view?

**Mr Anderson**—I should declare an interest: I have been involved in quite a few privatisations since I left government. I would broadly argue that governments should not be involved in commercial activities, because governments should not be involved in activities in which they have to take on market risk because governments are not very good at managing risk. All my experience of government, particularly a thing called the State Bank, convinces me that that is the case. I guess I became more of a privatisation zealot having watched that unfold. I am not saying governments cannot manage them, but governments spend a lot of time having to do that when I am not sure that is their core business. That is perhaps different from what you are asking, Senator, which is: is it the case that this money is a better financial result? I think in all probability a lot of those calculations are not done. There are ways of corporatising entities that allow them to take on risk. The extent to which governments can do that is sometimes difficult but it is not impossible.

**Senator FORSHAW**—Such as a public float?

**Mr Anderson**—No; that is privatisation, I guess.

**Senator FORSHAW**—Yes, but—

**Mr Anderson**—As I understood your question, you were asking me whether there is a financial relationship—by privatising an entity, whether that money is now available to the budget. Is that what you are asking?

**Senator FORSHAW**—Yes, that is part of it.

**Mr Anderson**—I think the calculation has to be done. It was done here by the Auditor-General when electricity assets were privatised. It is whether or not the revenue stream from the dividends is going to be outweighed by the reduction in debt. They are very difficult calculations and nobody will agree on them. It also comes back to the question of who is setting the dividend rate for that entity, whether it is the market or the government. Governments find it very difficult to not interfere with setting dividend rates.

**Senator FORSHAW**—There are two other issues. One is PPPs. We have had some comments about them this morning—and I think you were here when the Deputy Leader of the Opposition referred to them. Do you have some comments to make about the use of PPPs, how they are currently being utilised? There have been some good outcomes and some bad outcomes around the country and overseas. I would be interested for you to comment upon the long-term advantages, if you like, to the state management.

**Mr Anderson**—It is interesting, because nobody can borrow money as cheaply as the state governments. The first thing is that you do not do a PPP because you get cheaper money. All treasury departments have quite specific guidelines for PPPs—which are publicly available—and they set hurdles that they have to jump over before they will agree to a PPP, which means the focus is then on taking on risk. Of course it is very difficult at times to actually contract out all risk. But I think governments are attracted to PPPs largely because they do have the opportunity to transfer as much risk as possible, particularly completion risk—and it is a big issue for governments to get buildings completed on time—and to get other risks associated with the construction of the project in somebody else's hands. I think it is a more complicated issue that purely financial. For a state like South Australia, I think it also brings private investment, a commitment from people to bring business here. I think it is a way in which governments can be involved with the private sector. I think it is a way in which they can be assured they are going to get the right price and the right management process all the way down the line. It has advantages.

**Senator FORSHAW**—Do you see a distinction between those enterprises or services where there is a revenue stream back to government, such as with tollways et cetera, as against schools and hospitals?

**Mr Anderson**—What we are not seeing in PPPs in this state, because we have a Labor government, is the traditional PPP. The traditional PPP was that the company would build it and operate it and provide the service to the government. We are not seeing that because that involves a degree of privatisation which Labor governments are not prepared to accept—and maybe for good reasons—but we are seeing them largely as financial and construction instruments. A classic PPP was where the private sector would build the facility and staff it and provide the service back to the government.

I think what is driving a lot of PPPs, quite frankly, is the huge amount of superannuation money washing around the system and the desire of investment banks to make fees. I think there is a lot of money. I do not say it cynically; I think there are these sorts of people pushing these things. If you are going to build a public hospital, it is almost like a bond. It is the same with toll roads: they are fantastic investments because they have a steady income stream. They are very attractive to superannuation funds.

**Senator FORSHAW**—Provided the cars drive through them!

**Mr Anderson**—Well, most toll roads I think have been a reasonable investment. A public utility or a public facility like a hospital, where the government is going to in some way be involved financially, is an enormously attractive investment for a long-term investor like a super fund, and I think that is driving a lot of these exercises.

**Senator FORSHAW**—It is an interesting point. I have one final question, and it is something that has not been raised at all. When I came into the parliament, way back in 1994, I was on the public accounts committee, and I remember that at that time there was a Liberal-National Party opposition having an inquiry. The issue of special purpose payments kept getting raised, and there was certainly a view amongst the then opposition, which later became the coalition government, that there should be less of these special purpose payments. They were used quite a lot by the then Labor government. Do you see any sort of role for SPPs again?

**Mr Anderson**—This is my third declaration of interest. I was on part of a working group before the last election that did a report on this.

**Senator FORSHAW**—I did not know, by the way, that you were.

**Mr Anderson**—I was part of an advisory group to Kevin Rudd before the last election. We produced a paper on SPPs which was published. It is on the public record. Our major report on cooperative federalism has not been published, but we did recommend, and we made clear in that report on SPPs, that they do have an important role and we are not going to turn the clock back on that. They are the main vehicle by which the Commonwealth exercises its responsibilities and provides money through the states. We did recommend that they be reduced in number and said that the reporting arrangements associated with specific purpose payments were onerous and that they should have a greater focus on outcomes rather than accounting.

Constitutionally, specific purpose payments were envisaged as a short-term means of balancing disparities between the states in the early years of Federation. Of course, that has gone by the board now. Menzies used them originally with education, but certainly after Whitlam there is no going back. I think it is a way in which the Commonwealth legitimately is involved in major policy areas and a way in which the Commonwealth legitimately ensures that its priorities are being met and that its responsibilities to the taxpayers are being met, so I see no problem with them. I think that over the last 10 or 20 years there have been too many of them, and they cost the states a lot of money to manage—and those things can be fixed.

**CHAIR**—Again, Mr Anderson, thanks very much. Did I understand correctly you saying that the ratings from the ratings agencies to a degree depend upon the idea that if the borrowings are

put into infrastructure then that is good—this is putting it in very simple language—and if they go into recurrent expenditure they are bad?

**Mr Anderson**—The history of state governments in the eighties was that they were borrowing to fund recurrent expenditure; there is no question about that. There are a number of criteria on which the rating agencies judge the states. There are six, one of which is debt profile. One of the aspects of that debt profile is the purpose of the debt. I think it is fair to say that, in terms of their ranking, debt that is being incurred for recurrent expenditure would be frowned on and in fact probably commented on by the agencies.

**CHAIR**—From your knowledge, are current borrowings by state governments for recurrent expenditure or for capital expenditure?

**Mr Anderson**—My understanding is that it is largely for capital. When we were talking before about state budgets and governments announcing surplus budgets, the uniform presentation that I was referring to was in, for example, appendix A of Budget Paper No.3 of the South Australian government budget. State government budgets often still are—as they were in my time—public relations exercises and a cash surplus is announced. It is probably better to look at the overall finance requirement behind that. It is true that state governments often announce a cash surplus but overall they are probably in deficit because of the financing requirements that are related to the borrowings. That uniform presentation is put away in an appendix but it is there for you to see. The short answer to your question is: I could be wrong but I do not believe that the state government at the moment is borrowing to fund recurrent expenditure.

**CHAIR**—Just on that, I am not sure if you saw Vickie Chapman or Hamilton-Smith's presentation where he said there are three ways of describing a budget outcome in South Australia. Under two of them they are in deficit and under the other one they are not. Did you happen to notice that at all?

**Mr Anderson**—I got the end of Ms Chapman's presentation but I was not here for Hamilton-Smith.

**CHAIR**—It was in a written submission.

**Mr Anderson**—No, I have not seen the written submission.

**CHAIR**—I was just wondering whether you agreed with that?

**Mr Anderson**—I have not seen the submission.

**Senator FIELDING**—It is on page 4 of the Hamilton-Smith submission.

**CHAIR**—Can you just read it out quickly, Senator Fielding?

**Senator FIELDING**—Yes, the first one is a 'cash surplus/deficit'. The second one is 'net lending/borrowing'. The final one is 'net operating balance surplus/deficit'. It is the last one, the 'net operating balance surplus/deficit,' that stays positive whereas the other two turn negative quite sharply.

**Mr Anderson**—I think that is roughly what I was getting at. All state governments of both persuasions present the cash surplus up-front to the media. Behind that in the uniform presentation papers you will find the things you are referring to. So, yes, I broadly agree that there are many ways to present a state budget.

**CHAIR**—My question related to that was: which one is the equivalent Commonwealth one when we say we are going to have a surplus of \$20 billion this year? Which of those three is—

**Mr Anderson**—I do not pretend to be a state government financial expert.

**CHAIR**—That is perhaps a question I can ask someone else. You look like our most likely suspect to give us some technical or professional advice.

**Mr Anderson**—I think most Treasury people would look at the financing requirement—what it costs to finance the budget.

**CHAIR**—Which one is that?

**Mr Anderson**—The net financing requirement would be how much you have to borrow each year to finance your total budget.

**CHAIR**—Okay. You indicated there was a change in view and I have seen it reported in the papers that zero debt is now not as god almighty as it used to be perhaps in 1996. How do borrowings by state governments—because there are none, as I understand it, by federal governments—impact on inflation? Is that a question to be asked to you?

**Mr Anderson**—I am not sure it is to be asked to me. It is not for me to make political comments.

**CHAIR**—No, I am after a technical financial comment. Leave the politics to us!

**Mr Anderson**—I am not an economist but from what I understand of it I do not think there is a great relationship.

**CHAIR**—Between government borrowings and inflation?

**Mr Anderson**—There is a lot of economic debate about this whole issue of whether or not this creates room for the private sector. I go back to what I was saying before, which is that the level of borrowings is under a fair amount of public scrutiny. If they were such that they were too high, I think that would become apparent in the marketplace. It is probably best to say that I am not an economist and I could not give you a technical answer on that.

**CHAIR**—Perhaps the answer is the same to this—

**Mr Anderson**—Perhaps I could say that state governments are borrowing all around the world. Their financing authorities are borrowing everywhere.

**CHAIR**—Yes, you made that point in your paper.

**Mr Anderson**—I am not sure that they are competing in the domestic market for funds.

**CHAIR**—That was my next question: do borrowings have any impact on interest rates, or are the interest rates totally from other factors?

**Mr Anderson**—I am not an economist but I would make the point that state governments and their central borrowing authorities are borrowing when they need to borrow from all around the world; they are not crowding out the domestic market—let me put it that way. They are not creating a shortage of funds because they are taking money out of the domestic market.

**CHAIR**—Does the proposition that borrowing is not bad if it is used for the right thing still apply when the cost of borrowing is very high? I relate a personal experience. When I was in local government for 11 years we had big debts, and when they came due for renewal we were, as a local authority, paying interest rates of up to 14 per cent and 15 per cent for our borrowings. It was at that time that we thought we would be better off trying to pay them off and save the interest to fill the potholes, so to speak. Is there a cost at which borrowing is not productive?

**Mr Anderson**—I know that the state government Treasury officials are not appearing before you, but that is exactly the sort of question you should put to them or to an economist who understands those things better than I do. I am looking at it as a political scientist, reflecting on the political changes that have taken place and the reason behind them. I do know that state government borrowing authorities are highly sophisticated institutions that use equally sophisticated advisers and roll over debt, move debt around and manage their debt. I think in the budget papers somewhere I could find the overall government cost of funds—the average cost of funds—which I think they report on.

**CHAIR**—Sometimes those professionals in state or Commonwealth governments of any persuasion are overridden by the exigencies of their political masters.

**Mr Anderson**—I think that is the sort of thing that increasingly is difficult to do in the current government climate. Issues of governance, for example, are something the things that rating agencies look at.

**CHAIR**—Thank you very much. I have gone long over my five minutes but I urge everyone else to be briefer than I was.

**Senator CHAPMAN**—I have just one question. I suppose it has a political aspect, which is more your area of interest. Vickie Chapman earlier made the point that considerable expenditure by the state government was being defined as capital expenditure when it really was not, in her view, capital expenditure. Rather than being for building new schools it was for repairing or replacing a heater in a school or even for providing pencils and other stuff for the school, which really should come out of recurrent expenditure. Do you have a view on the appropriate description of expenditure? Related to that again is this question of borrowings. What types of project is it appropriate for governments to borrow for, as against funding out of recurrent revenue?

**Mr Anderson**—On the first question—and obviously I do not want to comment on Vickie Chapman, as tempting as that is—I simply make the point that there is the ABS government

framework and the Auditor-General's framework. These accounts are not just dreamt up in ministerial offices; they are overseen by accounting standards and Auditor-General standards. I think that is a proper classification and the government would not get away with it if it were not. I simply make that point, which is a way of saying that beyond that I would not like to say. I think increasingly governments are being seen in a more businesslike fashion. Governments now talk about balance sheets. So I am not sure there is a great deal of difference between a company that has a certain gearing and a government that, equally, chooses to borrow.

Traditionally, governments borrowed for long-term projects which were going to serve more than one generation. The argument was that if I build a bridge across the Port River it will be used by four generations, therefore future generations should pay for it. The way of paying for it was that they serviced the interest when they became taxpayers, just as I am doing now. That was the very traditional view of borrowing. At the time of the privatisation of ETSA, which was one of the main issues that led to the reduction of the state debt, because that money went to reduce debt, the argument was put about the debt levels under Tom Playford and how much Playford had borrowed to develop the state. A lot of these things are economic fashions. Economists argue about the size of government and the role of government. But, traditionally, governments borrowed for long-term projects which put in place infrastructure which was going to be used over a number of generations. More modern governments have the additional thing of saying: infrastructure that may generate some sort of revenue or economic development.

**Senator BUSHBY**—I am not sure whether this is a question that comes within your purview. To what extent do you consider the capacity exists within state governments to fund infrastructure needs through greater efficiencies rather than through higher taxes or borrowings?

**Mr Anderson**—I think you are right. I am not an expert on current state government finances, but obviously the amount of revenue you have and the amount of free cash flow you have means that you can service your debt better. I think any government would agree that the more efficient they are the more they will have that free cash flow to put to other uses. But I do not have an insight into the current financial situation in that detail.

**Senator BUSHBY**—Have you considered the windfall gains that state governments have been receiving in recent years due to non-budgeted higher revenues that have been coming in? Have you looked at that at all?

**Mr Anderson**—I have not. I have colleagues who have looked at this whole issue of so-called windfall. I would just make a simple point. I used to work for a state government, so my heart is still with state governments in some respects. If you look at state government expenditure, probably 75 per cent of it is on wages and salaries and, of that, most is in health and education. And, of course, the areas of greatest demand and of greatest expenditure increase have been in exactly those areas—health and education. So the whole problem for state governments has been their lack of flexibility as to how to cut money.

For the Commonwealth, wages and salaries are a minute proportion of the Commonwealth budget, and to employ another 700 people, as the Howard government did in what was going to be the Work Choices organisation, is nothing. To employ 700 people in a state government could cripple the budget. The Commonwealth's expenditure is largely big transfer payments—unemployment, social welfare—and over the last few years, of course, they have declined with

economic growth. State governments do not have that sort of flexibility, which is the core of the problem of being in a state government: your ability to dramatically turn the ship around is not great.

**Senator BUSHBY**—Okay. Are you able to make any comments about government business enterprises and the extent to which the state government relies on funding from that?

**Mr Anderson**—I supervised an honours student recently who did a thesis on water authorities. There is no doubt that, for example, SA Water pays more money to government than Sydney Water. I think that reflects South Australia's narrow tax base and relatively smaller economy. For example, we do not get as much payroll tax as New South Wales would, proportionately. If you look at the proportion of taxes in South Australia we are up there on gambling and on dividends from those organisations, I think because of the need for revenue. It is a problem. And I might say, since I have copped a lot of flak in the past for supporting privatisation, it is an argument in favour of government enterprises not being owned by government, because then those prices are set by the market. It becomes a bit harder in water, and some people suggest we should double the price of water. It is what you do with the profit, I suppose.

**Senator BUSHBY**—Exactly. In the context of the questions I just asked you might be able to answer this. Do you considered that the cushion argument with respect to state governments, that they should be planning ahead to insure against future shocks, is something that state government should be looking at? Should there be a longer term strategy? At the moment they have got windfall gains and they are spending it rather than pooking it away for the future or even committing it immediately to infrastructure projects that will help in the future when they will not have the money to do it. What sort of long-term strategy should state governments put in place to insure against external shocks?

**Mr Anderson**—I am sure they are all trying to, but I am also sure somebody in your inquiry, if they have not done so already, will mention vertical fiscal imbalance, the great bane of federalism. As Chris Russell said, the money is with the Commonwealth. It is a more difficult argument, and I did suggest to the secretariat, when they originally contacted me, a colleague in Tasmania who has done some research on the so-called GST windfall and whether or not it is actually a windfall.

**Senator BUSHBY**—Who is that?

**Mr Anderson**—I think it is Richard Eccleston. I think they have contacted him.

**Senator BUSHBY**—I am a Tasmanian senator.

**Mr Anderson**—Okay. He is a young bloke; he has just come down from Queensland. He is a Tasmanian, so you will be pleased to know he has come home. For example, one of the figures he produces shows that the extra money from GST is roughly equivalent to the extra money the states have been spending on health. I think all of the states want to do it, but I come back to how flexible state government financing really is and whether or not they have the capacity with the current demands.

**Senator BUSHBY**—Which would suggest that they would have even greater problems if they did not have the extra money coming from property taxes or payroll taxes. If that dried up, where would they go then?

**Mr Anderson**—I do not think any government likes to be beaten up on talkback radio daily for putting up property taxes. Part of trying to get a cushion against the future is keeping most taxes there.

**Senator BUSHBY**—Providing they do not spend it.

**Mr Anderson**—I am not suggesting state governments cannot save money and I am not here to say that everything state governments do is brilliant. There are a lot of issues—anybody who has been inside a public hospital knows they can be better run—but as things stand at the moment they are difficult political decisions and choices, I suppose. I guess I am saying we should treat the windfall argument with some caution.

**Senator BUSHBY**—Do you see any major or even minor adjustments to state-federal relations that would alleviate the vertical fiscal imbalance that would also, at the same time, promote efficiencies in expenditure? If you had to start from scratch, how would you do it?

**Mr Anderson**—If I had the answer to that I would have a chair somewhere. We are not going to turn the clock back on the Commonwealth involvement. It is extremely difficult. I think it might have been Chris who mentioned that the GST probably should be bigger than it is, but we may not have got it through the Senate if it was not. Whether the states should bite the bullet and increase that it is hard to say. Whether the Commonwealth should commit to a different proportion of major funding areas, such as health, or whether the Commonwealth should take that over, it is hard to say. The politics of federalism is difficult. Ultimately, it will mean that the Commonwealth will have to take a greater financial responsibility in areas that are currently the preserve of the states. The critical issue would be what follows from that.

**CHAIR**—If the states take over health and education, this raises the question: why bother with the states?

**Mr Anderson**—That is a very good question. Constitutionally it is very hard to solve because you are not going to abolish the states.

**CHAIR**—No. You have a shell government there.

**Senator FIELDING**—I am interested in your thoughts on federalism and where local government fits in. I know you spend a lot of time on the issue of federalism. One of the issues is that obviously local government is out of the states.

**Mr Anderson**—I was interested in the chairman's comments about COAG. That was a specific issue that we looked at in the Kevin Rudd exercise. COAG is a meeting of heads of government who are able to make decisions and commit resources. The president of the Local Government Association cannot do that. Local government is such a disparate organisation. In South Australia it is very efficient but it is relatively weak in a political sense. It is not like New South Wales; we do not have any party structures in local government in South Australia. In

Brisbane you have the Brisbane City Council on one hand, and on the other you have very small councils in Queensland. It used to be that Two Wells or Browns Creek or somewhere, which we always held up as the smallest local government in South Australia, had 450 people; I am not sure what the smallest one is now.

Local government is such a disparate organisation that the idea, in the current state of local government, that it could play a bigger role in the Commonwealth and the institutions of the Commonwealth is, I think, not going to work. If local government want to be more involved then they would have to be dramatically reformed, and you would have more fights like those you are having in Queensland. You would have to have bigger organisations which could actually make commitments across themselves. As it is currently structured, I think it just is not going to work.

**Senator FORSHAW**—The big city councils operate pretty much independently, I think, from all the others.

**Mr Anderson**—Chris mentioned the Australian Local Government Association. There is the rival group called the Council of Capital City Lord Mayors, who would also like a seat on COAG.

**Senator FIELDING**—I am sure there are a few others too.

**Senator FORSHAW**—Some of them have bigger economies than the ACT or the Northern Territory.

**Mr Anderson**—They represent more people than the rest of local government put together.

**Senator FIELDING**—You mentioned a report before. I did not know where it was. It was a federalism report or something. Is that something that is—

**Mr Anderson**—We published a report on specific purpose payments which had the status of being a report chaired by Michael Keating, the former head of the Department of the Prime Minister and Cabinet. It also included me; George Williams, from the University of New South Wales; and Meredith Edwards, a former senior public servant. We produced a report on SPPs, which is available. I could send you a copy if you would like one. That was made public.

**Senator FIELDING**—If you could send a copy, that would be great. Thank you.

**Mr Anderson**—Our major report on cooperative federalism was presented during the election campaign and consequently did not see the light of day.

**Senator FIELDING**—Could the committee make sure I get a copy of that one, thank you.

**Senator FORSHAW**—That sounds like a conspiracy—

**CHAIR**—Well, there was an audit report that got a lot of—

**Senator FIELDING**—Thank you very much for that. I found your paper very good.

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**Mr Anderson**—I think the Prime Minister is doing roughly what we suggested. Thank you for staying on well past your break.

**CHAIR**—Thank you and, again, our apologies for upsetting your timetable.

**Mr Anderson**—That is fine.

**CHAIR**—As I say, please do blame Senator Forshaw in explaining the delay to your students! You are an easy one to pick for being late, Senator Forshaw!

**Senator FORSHAW**—Sorry.

**CHAIR**—We could blame me, but you look like an easier target!

**Senator FORSHAW**—I am just in the government, not in the opposition.

**CHAIR**—Yes. The buck stops with you guys now, Senator Forshaw, so if your students, Mr Anderson, are without a professor it is Senator Forshaw's fault!

**Committee adjourned at 2.28 pm**